How prepared are English universities for a more deregulated undergraduate tuition fees environment?

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He has 10 years' experience in the field of pricing and financial management, specialising in smart profit growth strategies (international and national), discount optimisation, sales force management and negotiation strategy. Mark is a regular speaker and chairman at conferences and business schools on the subject of pricing strategy.

Prior to SKP he was Pricing Manager and Corporate Finance Manager at FLAG Telecom and Reliance Industries; before that he was a management consultant with PwC Consulting and IBM Business improvement and advanced costing methods.

Mark has conducted national and international consulting projects for clients including Betfair, BT, European Directories, Hilton, KPN, the Open University, Skype, Vodafone, Yahoo! and numerous private equity firms.

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Amanda founded the strategic marketing consultancy, Evidence Consulting, following over 20 years' experience in higher education marketing and business development.

After an early career in manufacturing and publishing, she joined the University of Bath where she established the marketing operation for the School of Management, developed its international brand and positioning strategy and created an award-winning MBA marketing campaign.

Amanda moved to the University of Exeter in 2000 where she built the marketing operation into an integrated marketing and student recruitment department and created the University's marketing and brand communications strategy. She also established a comprehensive market research operation covering product portfolio, pricing, marketing communications, student recruitment and admissions.

Amanda's marketing communications work has been recognised through several national and international marketing awards. She is a graduate of the University of Bristol, a member of the Chartered Institute of Marketing and gained her MBA with Distinction from Warwick Business School.

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Since joining SKP in 2008, Nik has specialised in higher education policy, pricing and marketing strategies for universities, including three projects for the Open University.

He has also spent time researching traditional and digital media, specifically ways in which newspapers could monetise their online content; in December 2009 he had an article on this topic published in The Pricing Advisor, the trade journal for the Professional Pricing Society.

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Since joining SKP in 2007, David has worked for both the London and San Francisco offices. He has a wide range of experience in marketing, strategy and pricing, having worked with clients in various sectors including software, e-business, media, fashion retail and higher education.

David has particular expertise in strategy formulation and the evaluation of growth opportunities, and also in the scientific aspects of price-setting including choice-based conjoint modelling.

2. Executive Summary

2.1 Background and rationale

> **The Independent Review of Higher Education Funding and Student Finance is likely to have major and far-reaching implications for universities' strategies for UK/EU undergraduate student recruitment and pricing policies.**

- The Independent Review of Higher Education Funding and Student Finance (the 'Browne Review') is likely to have major and far-reaching implications for universities' strategies for UK/EU undergraduate student recruitment and pricing policies. However, research reports and submissions to the Review to date have focused on the need to raise fees to address the funding shortfall in higher education and the unsustainable costs of the current student support system. The type of discussions which were commonplace in the run up to the introduction of 'variable' fees in 2006, concerning the potential impact on undergraduate demand and the implications for universities' marketing and recruitment strategies have not been a feature of the current debates.

- Studies of future scenarios for variable fees to date have taken an econometric modelling approach based on historical data. Primary research into willingness-to-pay and price sensitivity is extremely limited and fails to capture adequately the relationship between price and demand.

> **Primary research into willingness-to-pay and price sensitivity fails to capture adequately the relationship between price and demand.**

- Given the critical importance of postgraduate and international fee income to universities' financial health and sustainability, and the fact that these are already deregulated markets, there is a notable lack of research into the price sensitivity of these markets and the role that fees play in the student decision-making process. The range of decision-making variables and price sensitivity issues are notably different in the part-time market, which is also deregulated.

- The consistency of the recommendations from across the sector regarding the necessity of raising the fee cap, albeit incrementally, suggest that differential pricing at the subject and institutional level is a real possibility. The outcomes of the Browne Review could therefore dramatically change the 'rules of the game' for universities if the cap is raised to a level that creates a genuine market in fees.

- This study has therefore been undertaken to fill an important gap in the current knowledge base with regard to universities' approach to pricing. It combines our research findings into current policy and practice in a sample of universities with the theoretical and practical knowledge and expertise of Simon-Kucher & Partners (SKP) in pricing and marketing strategy. The report provides some recommendations for how universities could approach and structure their pricing activities in the future.

2.2 Objectives and methodology

Our research objectives were to capture current thinking, policy and practice amongst a representative group of universities.

- Our research objectives were to capture current thinking, policy and practice amongst a representative group of universities around the following key themes:

  - current process and practice in terms of the decision-making system and the use of course costing and market research and intelligence to inform pricing decisions;
  - how universities are preparing for the outcomes of the Independent Review of Higher Education Funding and Student Finance;
  - these institutions' views on the raising of the cap (for UK/EU undergraduate tuition fees) and its implications for the HE sector and their own institutions;
  - what universities regard as the key data and market intelligence gaps and barriers to taking a more evidence-based approach to pricing; and
  - the implications of a more deregulated fees market for universities' marketing and student recruitment strategies.

- The research took the form of an online survey and qualitative interview with senior managers in 18 universities (of which 11 were pre-1992 institutions), carried out in April 2010.

Universities are not routinely using costing data to inform fee-setting.

- Universities were also asked a series of questions regarding recent market and enrolment trends and their future plans for the student profile/mix at their institutions.

2.3 Research findings

- **Use of costing data**
  According to our research, universities are not routinely using costing data to inform fee-setting. This is due to a range of factors: primarily the lack of consistent and reliable costing data across all programmes, but also the complexities of introducing this system in more devolved

structures and the scale of the task involved in large institutions with sizeable course portfolios. However, whilst they were clear that cost should not be the sole driver of price, universities were aware of the need for more reliable and sophisticated management information to inform their portfolio analysis and financial planning.

Over three-quarters of respondents undertook market research to inform fee-setting but there were concerns around data quality.

- **Use of market research**
  - Over three-quarters of respondents undertook market research to inform fee-setting but there were concerns around data quality. Over half rated this as average and around a quarter considered it low quality.
  - The research mainly took the form of secondary research to benchmark competitors' fees; this was then used to make a judgement on where the university should position itself. Many respondents were aware of the limitations of this approach since it failed to capture the subtleties of competitors' offerings and market position.
  - There was no clear difference between traditional and modern universities in terms of the level of resources devoted to market research; rather, this tended to be a function of the locus of decision-making. Universities where this resided with Finance or Planning were found to take market research more seriously in terms of resource commitment and the level of sophistication of their market research activities.

Universities were keen to gain more reliable data on actual costs and the true financial contribution.

- **Fee-setting approaches**
  - Universities were of the view that fee-setting should be market-led not based on cost plus pricing but were keen to gain more reliable data on actual costs and the true financial contribution of individual departments and programmes to inform their business planning.
  - In the majority of institutions, ownership of fee-setting was ultimately with the senior management team or executive group, with a fees committee making the proposals to this senior group.
  - In cases where the responsibility was more finance-driven or rested with a smaller, more senior group there was often no marketing representation despite the fact that in many cases it was the marketing department that was conducting the market research which informed fee-setting.
  - Although all the universities in our sample had a centralised fee approval process, there was wide variation in the degree of central scrutiny of proposals

Almost all the universities were making some form of preparation for the Review in terms of new activities.

When asked about optimal levels for their own institutions, there was a clear preference for fees below the £7,000 level.

The majority of pre-1992 universities, therefore, appear to place their optimal fee level close to or at the level which was considered the most likely outcome of the Independent Review.

from academic departments for non-standard/premium fees for individual programmes.

- **Market research gaps**
  Two key gaps in their market intelligence were identified by respondents:
  - the need for primary research on willingness-to-pay and price sensitivity; and
  - more detailed and nuanced information on competitors' portfolios, value propositions and relative brand strength.

- **Preparations for the Independent Review**
  Almost all the universities were making some form of preparation for the Review in terms of new activities. Two-thirds were developing or putting in place new processes for the setting of fees and financial support and over half were actively seeking new data and/or taking a new approach to tuition fees, although in many cases this was at a fairly early stage of development. Just over a quarter were bringing in new people or groups to plan for these new scenarios. Several commented that they planned to do more when it was clearer what policy decisions would emerge from the Review.

- **Raising the fee cap**
  - The majority (70%) of respondents expected the Independent Review to advise that fees be capped at a level above £6,000 p.a., with £7,000 being the most frequently selected level.
  - In terms of the level required to create an open market, opinions were evenly spread across a range of fee levels, with somewhat higher proportions selecting the £7,000 to £8,000 range. Around a quarter of respondents thought there would not be a truly open market at any fee level.
  - When asked about optimal levels for their own institutions, there was a clear preference for fees below the £7,000 level. A fee of between £6,000 and £7,000 was the most frequently selected by pre-1992 universities, although an equal proportion were comfortable with fees above this level. By contrast, all but one of the post-1992 respondents considered a level up to £5,000 or £6,000 as optimal.
  - The majority of pre-1992 universities, therefore, appear to place their optimal fee level close to or at the level which was considered the most likely outcome of the

Around a quarter of all respondents believed that the cap should be removed as soon as possible but this rose to almost one-third amongst pre-1992s.

Two key imperatives were highlighted: communicating quality, reputation, return-on-investment and value for money and being able to substantiate these claims; and the need for greater transparency and clarity.

The majority of universities are not basing their pricing on empirical, primary research.

Independent Review. Conversely, the post-1992 institutions tend to price themselves below this level.

- When asked whether an open market would be fundamentally a 'good thing' for their institutions, there was a fairly even split between those who agreed it would and those who did not. Although slightly more of the modern university respondents were concerned about the implications of an open market, some pre-1992 institutions were worried about the implications for widening participation.
- Whereas around one-third of all respondents thought fees should always be capped, well over half of post-1992 universities were in favour of this. Around a quarter of all respondents believed that the cap should be removed as soon as possible but this rose to almost one-third amongst pre-1992s. The continuation of a cap for at least five years was advocated by four-tenths of respondents with half of pre-1992s favouring this policy.

- **Impact on marketing and recruitment strategies**
  Whilst there was some concern amongst post-1992 institutions about how they would communicate their value propositions and protect their brand if they were not able to price at the top end of the fees threshold, in general universities appear confident that they are well-prepared for a new fees environment in terms of the quality of the student experience, their market attractiveness and differentiation. The two key imperatives that were highlighted by respondents concerned:
  - the importance of communicating quality, reputation, return-on-investment and value for money and being able to substantiate these claims with objective, factual evidence; and
  - the need for greater transparency and clarity in communicating with prospective students and stakeholders in a more complex fees environment.

2.4 State of readiness of the sector for a more deregulated market

- Whilst our research shows that the majority of universities are not basing their pricing on empirical, primary research, they are not complacent either. The majority have invested in market research although they are aware of its current limitations. They are realistic in their appraisal of their processes and practice and the need to embed research into their fee-setting processes. They are keen to

They are keen to obtain better market intelligence to enable them to take an evidence-based approach to portfolio management and pricing.

There was variation in the extent to which marketing departments were involved in the actual decision process, rather than playing a supporting role.

Empirical research with prospective students is the only way to achieve robust knowledge of what price the market will bear and understand the complex relationships between price, brand perceptions and the impact on customer behaviour.

The research would enable universities to make evidence-based decisions on which types of investment would yield the greatest return.

obtain better market intelligence to enable them to take an evidence-based approach to portfolio management and pricing and plan with confidence.

- Universities are also changing their fee-setting processes to be more marketing and finance-led, although there was variation in the extent to which marketing departments were involved in the actual decision process, rather than playing a supporting role in the provision of research data.

- The majority of universities were making some form of preparation for the Browne Review although there was an understandable reluctance to invest scarce resources in preparing for an uncertain post-Browne future.

- Although there was a high level of awareness of the communication challenges ahead and how universities would need to respond, there was no evidence that individual universities are taking tangible steps to commission new research or review their positioning and communication strategies in preparation for a more competitive environment and demanding student audience.

2.5 The application of pricing science to the HE sector

- Pricing science based on conjoint analysis has been used by SKP in the HE sector to create a price modelling tool which enables the client to model different scenarios based on: the impact of different price points on application and enrolment volumes; the effect of changes to course attributes on customer behaviour; and the impact of changes in competitors' offerings.

- Empirical research with prospective students is the only way to achieve robust knowledge of what price the market will bear and understand the complex relationships between price, the functional and emotional aspects of brand perceptions and the impact on customer behaviour.

- By modelling the impact of different combinations of attributes on the propensity to apply and enrol, the research would enable universities to make evidence-based decisions on which types of investment in the academic 'product' and the student experience would yield the greatest return.

- Where managing capacity is an issue, being able to predict with greater accuracy the impact of price variations on recruitment volumes provides a powerful tool for managing demand and avoiding over-recruitment.

- However, the successful application of these techniques is dependent on institutions having (or being willing to invest in) a reliable evidence base regarding their customers' decision-making process, key choice factors and competitors, and competitors' value propositions.

- With the incremental lifting of the fee cap now a real possibility, English universities will no longer be able to rely on competitor benchmarking and subjective or 'aspirational' perceptions of their brand value in making pricing decisions. Poorly conceived pricing strategies pose a real risk to universities' financial health and sustainability.

Poorly conceived pricing strategies pose a real risk to universities' financial health and sustainability. Universities which have strong brands in the undergraduate market may not possess equal brand strength across their whole subject portfolio.

- Even universities which have strong brands in the undergraduate market may face increasing international competition in postgraduate and premium fee markets, or may not possess equal brand strength across their whole subject portfolio.

2.6 What universities could be doing now

- We have identified four key areas for review and/or development by universities to prepare for the outcome of the Browne Review.

Competitor research is required which goes beyond simplistic benchmarking.

- **Recommendation 1: Develop customer and competitor insight**
  Universities should undertake regular market research to understand the key choice factors, brand perceptions, influencers and motivators of their key customer segments. Competitor research is required which goes beyond simplistic benchmarking to achieve a sound knowledge of who the true competitors are and a more in-depth evaluation of their value propositions.

Universities are putting in place new processes to embed fee-setting into the finance and planning systems.

- **Recommendation 2: Continue to review fee-setting processes**
  A number of universities are putting in place new processes to embed fee-setting into the finance and planning systems, moving away from considering it as part of the 'teaching and learning' portfolio, and we recommend that this approach is adopted more widely. Reducing the size and complexity of decision-making groups alongside increasing the use of costing and market research data will enable them to be more responsive to market conditions.

Since pricing is an intrinsic element of branding, marketing departments should be more closely involved in the fee-setting process.

- **Recommendation 3: Model different fee scenarios through primary research**
  Investment in primary research will give universities a valuable evidence base for modelling the impact of different fee levels and course attributes on application and enrolment volumes and enable them to understand how their 'offer' compares to those of competitors. Undertaking this research at an earlier stage will allow universities more time not just for financial planning but for the planning and implementation of the changes required to both the academic and student experience and in how this is communicated to support their desired price positioning.

Investment in primary research will give universities a valuable evidence base for modelling the impact of different fee levels and course attributes on application and enrolment volumes.

- **Recommendation 4: Research and test brand messages to support the chosen value proposition**
  In a higher fees environment, marketing claims will need to be credible and sustainable and based on substantive evidence. The brand messages to communicate the value proposition effectively and distinctively will require market research and testing.

2.7 Recommendations for the future

In a higher fees environment, marketing claims will need to be credible and sustainable and based on substantive evidence.

- In the medium to long-term, we recommend that an empirical approach to pricing become more firmly embedded in universities' market research and planning processes.

- We would also recommend that universities create dedicated pricing analyst posts. Pricing strategy is a specialised field and, whilst the work of these in-house specialists will need to be complemented by commissioned primary research, it will no longer be sufficient for pricing to be handled by generic market research or planning staff.

3. The Higher Education fees context

3.1 How did we get here? – The impact of variable fees

Universities started to recognise the importance of creating and communicating their key differentiators and value propositions.

The Higher Education Act 2004 allowed universities in England to raise their full-time undergraduate tuition fees for UK and EU students to up to £3,000 p.a. plus inflation. The Act aroused huge debate in the HE sector, not to mention a major backbench rebellion during its passage through Parliament where it was passed with the narrowest of majorities. The debate was not just about the risk for HE participation, particularly from lower socio-economic groups, and the levels of bursary that would be needed to mitigate this. Universities – and not just those at the lower end of the rankings spectrum – also started to focus much more on the relative strength of their brands and the implications for recruitment, particularly in subject areas where competition was greatest. Marketing departments were expanded; the first Marketing Directors were appointed in many pre-1992 institutions; and a plethora of re-branding projects were undertaken. Universities started to recognise the importance of creating and communicating their key differentiators and value propositions[1] to prospective students and stakeholders. Brand positioning based on the advantages of studying in a research-intensive institution or the return-on-investment of a superior graduate employment record became increasingly commonplace.

No real market in UK/EU undergraduate fees emerged.

The outcomes of the introduction of 'variable' fees might suggest that these concerns regarding the impact on recruitment and the investment in marketing and branding were misplaced. Since the vast majority of universities charged the maximum fee, no real market in UK/EU undergraduate fees emerged. The key drivers of this decision were the need to generate additional income to protect the unit of resource and invest in the 'student experience' combined with concerns regarding the negative messages that 'discounting' would send about the university's brand. The key policy area for most universities centred on how to design the most optimal (in recruitment terms) and affordable scholarship and bursary package. This was no easy task in the absence of rigorous market intelligence on how the market might respond to different levels of financial support, and a plethora of institution- and course-specific schemes emerged. The differential packages of student support could also be said to

[1] 'Value proposition' refers to the total package of benefits that an organisation provides to a customer or stakeholder.

have created a quasi-market, although there is no hard evidence regarding their impact on propensity to apply or enrol.[2]

Studies of the impact of the introduction of variable fees in 2006 have suggested that the market for undergraduate education is price inelastic and that quality as measured by entry requirements (UCAS tariff), league table position; general reputation is a more important differentiator than price. Indeed, it would be fair to say that there is already a market in terms of the differential entry requirements (the 'academic price') which universities use to send signals of quality and as a means of managing demand in a market where the number of Government places is capped. The same principle applies to postgraduate and international student recruitment by institutions with competitive entry and high demand.

Studies of the impact of the introduction of variable fees in 2006 have suggested that the market for undergraduate education is price inelastic.

The earlier studies of the impact of variable fees drew on the Australian experience of the introduction of the Higher Education Contribution Scheme (HECS) as being more akin to the UK model than the 'free market' approach of the US.[3] In fact the changes introduced in 2006 for English universities mirrored a number of aspects of the Australian model such as deferred fee payments and income contingent loans.

Evidence presented to the Independent Review of Higher Education Funding and Student Finance (the 'Browne Review') shows that the introduction of variable fees has had no negative impact on the HE participation rates of young people. HEFCE's research shows that in the last five years there has been a 'significant and sustained increase in the participation rate of young people living in the most disadvantaged areas (representing 20% of young people)'.[4] However, Sir Martin Harris's report on access to selective universities[5] shows that participation amongst the most disadvantaged group at the top third of selective universities has not increased despite the concerted efforts of these universities to encourage applications.

The introduction of variable fees has had no negative impact on the HE participation rates of young people.

UUK's series of reports on the enrolment impact of variable fees also show that there is no evidence of a lasting impact on the

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[2] The NUS (2008) report 'Broke and Broken. A critique of the higher education funding system' describes this as a 'shadow' market'. Claire Callender's research has highlighted the use of scholarships and bursaries for recruitment rather than financial need purposes: Callender, C (2010) Bursaries and institutional aid in higher education in England: do they safeguard and promote fair access? *Oxford Review of Education,* vol. 36, issue 1, 45-62

[3] CRA International/Nigel Brown Associates (2009), Changing Landscapes: future scenarios for variable tuition fees (UUK). Chester, J and Bekhradnia, B (2008), Funding higher fees: some implications of a rise in the fee cap (Higher Education Policy Institute). Foskett, N, Roberts, D & Maringe, F (2006) Changing fee regimes and their impact on student attitudes to Higher Education (Higher Education Academy).

[4] HEFCE (2010) Trends in Young Participation in Higher Education: Core Results for England; Independent Review – overview of first call for evidence responses, March 2010

[5] Harris, M (2010) What more can be done to widen access to highly selective universities? (Office for Fair Access)

Discussions of what level of fees universities might charge and the implications for recruitment volumes and university brands and reputations have not yet surfaced.

Studies of future scenarios for variable fees do not provide the depth of insight into the price sensitivity of prospective students that would be essential in a more deregulated market.

level or patterns of demand from full-time UK/EU undergraduates. Despite a dip of around 4% in full-time undergraduate entrants in 2006/7, numbers subsequently rose to the pre-variable fee level of 2005/6 and 2008/9 saw a 7% increase.[6]

3.2 Why is 2010 different from 2006?

Against a backdrop of rising demand from UK students, coupled with restrictions in additional student numbers, fines for over-recruitment and public funding reductions totalling £1 billion over the next three years (together with an additional £200m cut in this year's budget announced recently by the new Government), it is perhaps understandable that the risks that higher fees may pose for UK/EU undergraduate recruitment are not at the top of universities' agendas. This may explain the notable absence of the type of debates that were commonplace in 2004 when the Chief Executive of HEFCE asserted that many universities were in danger of getting their branding and pricing 'spectacularly wrong'.[7]

The main focus of the submissions to the Browne Review's second call for evidence is the necessity of plugging the funding gap, creating a more sustainable student support system and, in the case of the more 'elite' universities (Russell and 1994 Groups), the need for a differential market that reflects the differences in quality and rates of return to graduates. Discussions of what level of fees universities might charge and the implications for recruitment volumes and university brands and reputations have not yet surfaced. This may, at least in part, be due to the limitations of current research evidence regarding the relationship between price and student demand. We discuss the submissions to the Review's call for evidence in more detail in section 3.6.

Studies of future scenarios for variable fees have taken an econometric modelling approach based on historical data.[8] Whilst these techniques can be valuable in understanding the impact on past student enrolment of different student funding packages, they do not provide the depth of insight into the price sensitivity of prospective students that would be essential in a more deregulated market; for example, does the 'headline' or 'sticker' price act as a deterrent to applying in the first place?. Econometric modelling is also an inadequate research

[6] Brown, N and Ramsden, B (2009) Variable tuition fees in England: assessing their impact on students and higher education institutions. A fourth report (UUK); HESA 2008/9 data.

[7] Carasso, H (2010) The responses of English universities to the financial provisions of the HE Act (2004) Evidence to the Independent Review of Higher Education Funding and Student Finance draws attention to the risk that if the fee cap is raised some universities may 'premium price' without having an understanding of their market position, leading to under-recruitment.

[8] See for example: Institute of Fiscal Studies (2010) The impact of the '2006-07 package' of reforms to HE funding. Submission to the 2010 fees review and CRA International/Nigel Brown Associates (2009), op. cit.

instrument for predicting the impact of hypothetical changes in pricing, course provision, new student services and/or changes in a university's positioning strategy.

Primary research into willingness-to-pay and price sensitivity has been conducted by OpinionPanel Research annually for the past four years and is currently the only national study of its kind.[9] The research is conducted with current students who are asked at what price they would reject their current course and university as either 'too expensive' or 'too cheap' and at what price they would consider it either 'good value' or 'a bit expensive'.[10] The limitations of the research as an aid to pricing decisions stem from two key aspects. First, the use of current rather than prospective students as research subjects means the responses do not mirror the actual decision process (particularly the financial considerations that may prevent students from progressing to HE in the first place) and carry a risk of the cognitive dissonance effect. Secondly, the use of rejection curves as a proxy for demand risks overstating the price that students would be willing to pay. The research concludes that more than half of students would be willing to pay fees of £5,000 and one in five would be prepared to pay £10,000, although there are variations across subjects and mission groups. Subject is found to be a more important driver than social background and demand is considered to remain substantial even at £7,000. Therefore, whilst the research is of interest in terms of what it reveals regarding the differential values students place on different subjects and universities, in our view it would be risky to use it as a robust basis for fee-setting and understanding the relationship between price and demand.

3.3 A free market already exists in parts of the HE sector

Universities have been operating in a free market for many years when it comes to international and postgraduate taught tuition fees.

With UK/EU undergraduate fees comprising such a major proportion of the sector's income (although varying widely for individual institutions), coupled with the political sensitivity of changes to the undergraduate funding regime, it is easy to overlook the fact that universities have been operating in a free market for many years when it comes to international and postgraduate taught tuition fees. Universities are free to set a price that the market will bear and there is no Government cap on numbers. These markets provide important sources of income which are likely to be even more critical for financial sustainability in the future.

[9] Vignoles, A and Burton, S (2010) How much more will students pay? Primary research evidence on students' likely responses to changes in higher education tuition fees (OpinionPanel Research). See also: Attwood, R 'How high? 'Reasonable number' would accept fees hike', *Times Higher Education,* 11 February 2010

[10] This study uses the van Westendorp model whose limitations are discussed in section 4.3.

3.3.1 International student recruitment

The internationalisation of the student body is a forceful trend in the global HE sector. Increasingly, universities worldwide are treating each other as competitors in the race for the best students from every corner of the world. The mantra that overseas students are 'a good thing' is repeated continuously in strategy documents and policy announcements.

International students have almost doubled in the 10-year period from 1998/9 to 2007/8.

This is hard to contest in the case of the UK. First, international students – and by this we mean from outside the European Union – have almost doubled in the 10-year period from 1998/9 to 2007/8, compared with a 21% rise in UK and 10% in EU students over the same period.[11] Figures have continued to rise despite concerns regarding the intensification of competition from other major recruiting countries and more stringent visa requirements: new first year full-time international student enrolments rose by 16% in 2008/9 (the most recent year for which official figures are available).[12] The top ten source countries are: China, India, USA, Nigeria, Malaysia, Pakistan, Hong Kong, Canada, Taiwan and Saudi Arabia, with Saudi Arabia (+45%), India (+29%) and Nigeria (+19%) the major growth countries. China remains the major supplier of international students (over 50,000 compared with 36,000 from India). The number of students from China enrolling in UK universities increased by around 3% in 2008/9, the first year of positive growth since 2004/5.[13]

The UK has the highest level of international student mobility after Australia.

Secondly, international students are a valuable source of income for universities. According to OECD figures, with 15% of international students in its total tertiary enrolment, the UK has the highest level of international student mobility after Australia at 20%.[14] Whilst international student income represents 8% of UK universities' total income (compared with 15% for full-time UK/EU students),[15] international fees can account for a significantly higher proportion of income for some institutions.[16] A survey by the Financial Times of 20 UK universities, conducted in February 2010, found 81% planned to recruit more international students to offset the recently announced Government funding cuts and to take advantage of the weak pound to increase fees by 10%.[17]

International students make a significant contribution to the UK economy.

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[11] Ramsden, B (2009) Patterns of Higher Education institutions in the UK, 9th report (UUK)
[12] HESA data, 2008/9
[13] British Council analysis of HESA data 2008/9
[14] OECD (2009) Education at a glance 2009
[15] UUK (2009) Higher Education in Facts and Figures
[16] For example at the London School of Economics international students constitute 48% of all full-time students and represent 30% of total income and two-thirds of tuition fee income. At SOAS 69% of all full-time fee income is from students paying full international fees, although these students account for 24% of all registered students. (Source: 2009 annual reports).
[17] 'Cuts threaten UK universities' lifeline', *Financial Times*, 19 February 2010

Through its investment in international student recruitment and on-course support, the UK HE sector has been able to maintain its share of the lucrative global market of over 3 million tertiary level students despite increasing competition.

Thirdly, international students make a significant contribution to the UK economy. UUK estimates that UK HE generates £5.3bn in export earnings;[18] an earlier study by the British Council gave the direct value of EU and non-EU students as an estimated £8.5 billion to the UK economy.[19]

Through its investment in international student recruitment and on-course support, the UK HE sector has been able to maintain its share of the lucrative global market of over 3 million tertiary level students despite increasing competition from other major players, notably Australia and the USA. The UK's market share has remained at 12% compared with 20% for the USA, 9% for Germany and 8% for France. These four countries make up nearly half of all students studying abroad.[20] Whilst the USA has lost market share (down from 25% in 2000), Australia and New Zealand have increased theirs. Moreover, an increasing number of institutions in non-English-speaking countries – particularly the Nordic countries but also France and Germany – now offer courses in English in order to attract more international students. The fact that Finland, Iceland, Norway and Sweden do not have tuition fees for international students also places them at an advantage.

A further important trend is transnational education (TNE) which a British Council report[21] predicted would overtake international education delivered in the UK as the main delivery mode for international students studying for a UK qualification. (TNE refers to students studying overseas for a UK award, including those at an overseas partner, but also distance, flexible and distributed learning outside the UK.) According to the British Council,[22] UK qualifications are now offered in 217 countries outside the UK and in 66 of these more students are studying a UK qualification in-country than the number who choose to study in the UK.

UK qualifications are now offered in 217 countries outside the UK.

Therefore, despite their impressive international recruitment performance to date, these competitive pressures and the changing global education landscape mean that UK universities are not resting on their laurels. They are continuing to invest in and develop their international recruitment strategies in order to defend and increase their share of the highly mobile student marketplace and generate lucrative additional fee income amidst straitened times for public expenditure. Increasing emphasis is placed on developing sustainable and longer-term

[18] Based on 2007/8 figures; includes direct international fee income plus expenditure by international students and visitors. See: UUK (2009) The Impact of universities on the UK economy, 4th report; .UUK (2010) Manifesto for higher education

[19] Lenton, P (2007) Global Value – The Value of UK Education and Training Exports (British Council)

[20] Growth figures refer to 2000-2007; all other figures are for 2007. Market share figures are based on the percentage of all foreign students worldwide enrolled in a given destination. Source: OECD, Education at a glance 2009.

[21] British Council (2003) Vision 2020: forecasting international student mobility, a UK perspective

[22] British Council analysis of 2008/9 HESA data which has recently started to include figures on TNE.

sources of international revenue through international partnerships, overseas campuses and agreements with private providers for the provision of UK-based English language feeder and foundation programmes.

Just three countries – China, India and the USA – account for 40% of international students in UK HEIs.

Diversification of source countries in order to spread the risk and avoid over-dependence on a small number of markets is often highlighted as an important strategic concern for UK universities.[23] Just three countries – China, India and the USA – account for 40% of international students in UK HEIs.[24] There is a similar, but more marked, pattern of dependency on international student income and a narrow range of source countries in Australia: 15% of the HE sector's income is from international tuition fees and two institutions derive over 30% of their total income from this source.[25]

International students therefore continue to be an important income generator for universities and feature strongly in their strategic and financial planning. In terms of sector trends, undergraduates constitute the largest group of non-EU students across UK universities at 38% with the postgraduate taught proportion not far behind at 36%. However, at 14% in 2008/9, full-time international taught postgraduate recruitment has grown at a faster rate than undergraduate (9%).[26]

Given the critical importance of international fee income to universities' financial health and sustainability, there is a notable lack of research into the price sensitivity of these markets and the role that fees play in the decision-making process.[27] Although the added complexity involved in researching price sensitivity across international markets presents a challenge, given appropriate time and resources it is an achievable exercise.

Given the critical importance of international fee income to universities' financial health and sustainability, there is a notable lack of research into the price sensitivity of these markets.

3.3.2 Postgraduate student recruitment

Taught master's degrees have been the major engine for growth in postgraduate provision with first-year enrolments increasing by 27% between 2002/3 and 2007/8. International recruitment has accelerated at a much greater rate than UK

[23] See Gill, J 'Lower fees for foreign students', *Times Higher Education,* 25 September 2008 citing Bahram Bekhradnia, director of the Higher Education Policy Institute, on the dependence of certain UK universities on international fee income.
[24] British Council analysis of HESA data 2008/9
[25] See Baty, P 'Exposed and vulnerable', *Times Higher Education*, 22 April 2010. The article highlights the cross-subsidisation of domestic student services and research activity from international student fees due to the failure of Australian public funding to keep pace with growth in student numbers.
[26] HESA 2008/9 data
[27] An exception is the British Council/Economist Intelligence Unit 'Forecasting International Student Mobility' project launched in 2008 which models future demand for HE in different countries and uses macro-economic and income data to predict demand patterns. See http://www.britishcouncil.org/eumd-information-forecasting-student-mobility.htm

recruitment – 48% vs. 16%. Around half of all taught master's students are international fee-payers.[28]

There has been significant growth in the range of taught postgraduate provision over the past decade, with notable growth in business and vocational masters programmes particularly, fuelled by the perception amongst graduates that they 'need' a masters degree to differentiate themselves in a competitive employment market. As noted in a recent HEPI report,[29] whilst the *numbers* of first degree and taught postgraduate students has increased by around 16%, the *proportion* of first year taught masters to first degree graduates has remained fairly static at around 28%. This shows there has been no significant change in progression of first degree graduates to postgraduate study. Although impact of the recession on the UK graduate job market may have given a recent boost to recruitment, as a number of our respondents noted, it would be risky to infer that this presages a period of further sustained growth in the UK postgraduate taught market.

There has been no significant change in progression of first degree graduates to postgraduate study.

The limited public funding for postgraduate taught degrees in the UK acts a further brake on demand.[30] Universities' income from taught postgraduate fees totalled over £1.5bn in 2008/9. By contrast, public funding for postgraduate teaching from HEFCE and the Scottish, Welsh and Northern Ireland funding bodies amounted to just £250m for 2009/10.[31]

The vast majority of UK/EU taught postgraduates are privately funded (around 60%) and less than a third receive public funding (for example, from the Research Councils or the NHS). Since 2001 the number of publicly funded UK/EU taught postgraduates has fallen by just under 12%.[32]

The vast majority of UK/EU taught postgraduates are privately funded.

A 2006 study on financial issues in postgraduate education found that tuition fees were a major factor in the decision not to progress to postgraduate study: around three-quarters of students said this was a strong influence on their decision.[33] These funding limitations have been recognised in proposals from UUK and the Russell and 1994 Groups to the Browne Review which recommend extending the system of loans to postgraduate taught students. The 1994 Group suggests this would help address the risk that higher undergraduate fees would lead to reduced demand for masters provision.

[28] Higher Education Policy Institute (HEPI) and the British Library (2010) Postgraduate education in the United Kingdom
[29] House, G (2010) Postgraduate education in the United Kingdom (HEPI/British Library)
[30] See Boorman, S and Ramsden, B (2009) Taught postgraduates: market trends and opportunities (UUK)
[31] Department for Business, Innovation and Skills (DBIS) (2010) One step beyond: making the most of postgraduate education (report on the findings of the review panel on postgraduate education, chaired by Professor Adrian Smith)
[32] Ibid.
[33] Allen, J, Goodlad, S & Redman, C (2006) The market failure of postgraduate education: Financial and funding related issues (National Postgraduate Committee and Prospects)

Charging more market-led UK/EU fees for high demand, differentiated and employment-led programmes has been a growing trend.

Few universities charge a significant premium over the HEFCE 'assumed fee'[34] for masters degrees in the arts and social sciences but for business masters and degrees in law, science and technology, UK/EU fees of £6,000 to 8,000 p.a. are not uncommon.[35] The average UK/EU fee rose in nominal terms by 48% between 2000/1 and 2007/8.[36] And, of course, international students pay substantially more for both science and non-science based programmes.[37] Charging more market-led UK/EU fees for high demand, differentiated and employment-led programmes has been a growing trend in recent years, even outside the traditional premium-priced subjects of business and management. This has been driven both by the need to grow income in deregulated markets and also by greater scrutiny of programme costs. Scope for premium pricing will vary between institutions depending on their programme and subject portfolios.

It seems likely that public funding for postgraduate taught provision will be reduced further, with funding targeted at research degrees and employment-led taught provision which contributes to the UK economy (as recommended by the Government's HE framework and the Smith Review of postgraduate education[38]). In a more price-sensitive UK postgraduate market (now that the first students to pay the higher variable fees are graduating with substantially greater debt), it becomes even more vital for universities to take an evidence-based approach to pricing not only their international postgraduate provision but also their UK/EU postgraduate programmes.

It is now recognised that part-timers were neglected by the 2006 reforms.

3.4 Part-time – A neglected area

Part-time fees are also deregulated and it is now recognised that part-timers were neglected by the 2006 reforms since they continued to be subject to up-front fees.[39] Institutions that are heavily reliant on part-time students (for example, the OU and Birkbeck) have suffered financially as a result of these financial

[34] HEFCE's teaching funding model uses fee income assumptions for different subject bandings to calculate the teaching grant to institutions. It is worth noting that these 'assumed fees' have not been updated since the introduction of variable fees in 2006. This is now being considered within HEFCE's consultation on teaching funding.
[35] Mike Reddin, www.publicgoods.co.uk, 'Fees in UK Universities and HE Colleges 2002/3 – 2009/10'. The fee levels published here should be used with caution since the average fee can be distorted in the case of HEIs with premium fee programmes and a large range of fees.
[36] HEFCE (2009) Survey of fees for postgraduate taught and part-time undergraduate students
[37] See UUK's annual survey of international tuition fees: http://www.universitiesuk.ac.uk/Newsroom/Facts-and-Figures/International-student-tuition-fees/Pages/default.aspx
[38] Department for Business, Innovation and Skills (DBIS) (2009) Higher Ambitions: the future of universities in a knowledge economy; Department for Business, Innovation and Skills (DBIS) (2010), op. cit.
[39] See Callender, C (2010) The impact of the 2004 Higher Education Act on part-time provision and part-time students in Higher Education. Submission to the Independent Review of Higher Education Funding and Student Finance

barriers to part-time study, coupled with the impact of the new ELQ rules.[40]

The range of decision-making variables and price sensitivity issues are notably different in the part-time market, not least because the decision is not based solely on where and what to study but whether to undertake further study at all.

The previous Government's HE framework report, *Higher Ambitions,* emphasised the importance of alternatives to the traditional three-year, full-time degree for increasing HE participation through part-time, work-based and flexible study modes.[41] The report from the Labour Government's Panel on Fair Access to the Professions (the 'Milburn Report') also called for greater flexibility to accommodate part-time students and remote learners.[42]

The current minister for science and universities, David Willetts, has recently reaffirmed the importance of alternatives to the three-year degree.

The new Government's HE policy appears to be continuing in this vein. The current minister for science and universities, David Willetts, has recently reaffirmed the importance of alternatives to the three-year degree, regarding the previous Government's 50% participation target as creating not only an unsustainable funding situation but also expansion at the expense of quality. The current vision for the future of undergraduate provision (pending the outcome of the Browne Review is to limit the number of full-time funded places and base expansion on a combination of distance and flexible learning (citing the University of London's External Programmes system as a model), more delivery of HE in the FE sector (allowing students to study more cheaply and live at home) and prioritisation of vocational education.[43]

3.5 Growth in online and distance learning

The majority of UK universities' online and distance learning provision is currently at postgraduate level and focused on professional development. Whilst the Open University remains the major UK provider, the development of online and more flexible learning was championed by the Labour Government for several reasons. It is regarded as a source of growth in export earnings for UK HEIs; it can enhance the quality of the learning experience for UK-based students and their technological and information literacy; and it offers scope to increase the flexibility of learning opportunities (including workplace learning), thus contributing to both the skills agenda and

Distance learning is also regarded by the present Government as part of the solution.

[40] Equivalent or Lower Qualifications: with the exception of some vocational programmes, students taking a programme at the same or a lower level than the qualification they already hold do not attract Funding Council income.
[41] Department for Business, Innovation and Skills (DBIS) (2009) op. cit.
[42] Milburn, A (Chair) et al (2009) Unleashing Aspiration: The Final Report of the Panel on Fair Access to the Professions (Cabinet Office)
[43] See: Elliott, L and Asthana, A 'Vince Cable moves to cut number of university places', The Observer, 6 June 2010; Harrison, A 'Universities on 'shaky foundations' says David Willetts', BBC Online, 10 June 2010

widening participation.[44] As noted in the previous section, distance learning is also regarded by the present Government as part of the solution to the problem of sustaining and expanding the existing undergraduate education system at a time of unprecedented public funding constraints.

Growth of online learning in the postgraduate and international student markets will require universities to review their costing and pricing models.

An Online Learning Task Force was established by HEFCE in June 2009 to support universities in growing their share of the global online education market by 2015 and to develop flexible learning models to reach new student markets. Growth of online learning in the postgraduate and international student markets will require universities to review their costing and pricing models and undertake primary research into willingness-to-pay and price sensitivity that is adapted to the specific needs and decision-making factors in these markets.

If traditional undergraduate degrees are to incorporate more online delivery, this will create a range of issues around value for money.

If traditional undergraduate degrees are to incorporate more online delivery, this will create a range of issues around value for money and require careful communication to a more consumer-driven market where questions are already being raised about the number of contact hours and quality of teaching and support received in return for higher fees. Understanding student needs and the drivers of satisfaction in a more 'blended learning' environment will be crucial to ensure that the migration from face-to-face to online delivery is not construed as a cost-cutting measure. Here, again, research will be needed into the trade-offs that students are prepared to make and what course attributes drive satisfaction and willingness-to-pay.

3.6 Submissions to the Independent Review

Research will be needed into the trade-offs that students are prepared to make and what course attributes drive satisfaction and willingness-to-pay.

Research reports and submissions to the Independent Review's first call for evidence focused on: the impact of the 2006 variable fees; the unsustainability of the current student support system and various scenarios for reform;[45] the complexity of the current system of institution-specific bursary and scholarship schemes; the urgent need to address the funding shortfall in order to maintain a world-class higher education system;[46] how universities have used the additional £2.7bn generated by 'top up' fees since 2006;[47] and the need

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[44] DBIS, op. cit. A recent HEFCE report found that 22% of part-time Foundation Degree students studied by distance learning. HEFCE (2010) Foundation Degrees: Key statistics 2001-2 to 2009-10 (HEFCE Issues Paper April 2010/12)

[45] See for example: Dearden, L, Goodman A, Kaplan, G and Wyness, G (2010) Future arrangements for funding higher education (Institute of Fiscal Studies/Nuffield Foundation). Barr, N (2010) Paying for Higher Education: what policies in what order? Submission to the Independent Review of Higher Education Funding and Student Finance. Barr, N and Johnston, A (2010) Interest subsidies on student loans: a better class of drain (Centre for the Economics of Education, London School of Economics). Barr, N. (2009) Financing Higher Education: Lessons from economic theory and reform in England. *Higher Education in Europe*, vol. 34, issue 2, 201-209

[46] See for example: Russell Group (2010) Staying on top: the challenge of sustaining world class higher education in the UK (Russell Group Papers, issue 2)

[47] See Macleod, F (2009) Making it count: how universities are using income from variable fees (UUK)

for greater transparency and better information, advice and guidance (IAG) to inform students' decision-making.[48]

Submissions by the various university representative bodies and mission groups to the Independent Review's second call for evidence were made in mid-May. They were consistent in calling for graduates to contribute more towards the cost of their education and for the introduction of a real rate of interest on loans and/or a higher rate of repayment. However, there was a clear division between the Million+ Group of post-1992 universities and the other mission groups with regard to raising the fee cap. In addition, both submissions from the groups representing modern universities support the allocation of additional student places to expand participation, a feature which is absent from the proposals from the pre-1992 mission groups.

Submissions were consistent in calling for graduates to contribute more towards the cost of their education.

Other areas of common ground in the recommendations are: HE should remain free at the point of delivery and financial support should continue for the poorest students; public funding for HE should continue; the costs to the Government of the current student loan system should be reduced; the terms 'fees' and 'loans' should be replaced by 'graduate contribution' to emphasise that this represents a personal investment in the student's future, repaid after graduation; considerable improvements are required in the quality and transparency of information provided to students regarding the benefits they can expect from different courses and universities; the artificial distinction between financial support for full- and part-time students should be removed; and that consideration should be given to extending student loans to postgraduate taught students.

UUK makes the case for graduate contributions to rise over time 'up to a maximum level' which, in future, could be 'appreciably higher' than currently.

Interestingly, UUK (representing the vice-chancellors of all universities) makes the case for graduate contributions to rise over time 'up to a maximum level' which, in future, could be 'appreciably higher' than currently, although they wish this to remain 'regulated and carefully monitored'. UUK also advocates the introduction of a real rate of interest on student loans above the Government cost of borrowing but not at a commercial rate.[49]

By contrast, the Million+ Group is opposed to an open market in tuition fees which it says would transfer resource to the most socially exclusive universities; rather, abolishing the minimum bursaries which universities are required to provide under the current system would allow them to reduce their fees, thus providing savings on the loan system and allowing Government investment in additional student places. The Group sets out

[48] Fazackerley, A and Chant, J (2010) More fees please? The future of university fees for undergraduate students (Policy Exchange)
[49] Universities UK (2010) Submission to Independent Review of Higher Education Funding and Student Finance, May 2010

proposals for raising the real rate of interest by up to 2% and extending the repayment period by 10 years. It claims this would deliver the £1bn savings required by Government and avoid the £600m cuts set out in the pre-Budget report.[50]

The three other main mission groups all propose an increase in graduate contributions, although there are notable differences in the detail of their proposals and a clear divide between traditional and modern universities.

The Russell Group and 1994 Group call for an increase in fees to a level which would generate genuine competition between institutions and courses.

The Russell Group[51] and 1994 Group[52] proposals emphasise that higher contributions from graduates should provide additionality and not lead to a cut in the teaching grant.[53] Both call for an increase in fees to a level which would generate genuine competition between institutions and courses by creating a link between the level of fee and the quality of provision and which would therefore encourage greater investment in the student experience.

The Russell Group is in favour of the removal of the fee cap with universities free to determine fees for all undergraduates but recognises this change will need to be incremental to make the system acceptable. They oppose the graduate tax system proposed by the National Union of Students since this would remove the link between the differential costs of provision and the level of graduate repayment. The Group advocates an Australian-style system whereby high cost STEM (science, technology, engineering and mathematics) subjects of strategic importance to the economy receive a higher public subsidy with a lower proportion borne by the graduate. The Russell Group's submission claims that by reforming the loan system to charge a real rate of interest and through private investment the costs of providing loans could be reduced even if fees were to rise to as high as £9,000 per annum.

The Russell Group's submission claims that the costs of providing loans could be reduced even if fees were to rise to as high as £9,000 per annum.

The 1994 Group is somewhat more conservative in its recommendations, proposing a staged increase up to a maximum cap 'to be determined by the Review Group' with universities free to set their fees up to this level. The 1994 Group states its opposition to any attempt to rebalance the funding between institutions by compensating universities unable to charge higher fees. The Group also calls for greater flexibility in the allocation of funded student numbers based on

[50] Conlon, G and Chapman, J (2010) Fair Funding for All: An analysis of the relationship between student support, graduate contribution and the funding of universities in England: scenarios for the future (Million+ and London Economics)
[51] Russell Group (2010) Funding Higher Education in England: What are the Options? Submission by the Russell Group of Universities to the Independent Review of Higher Education Funding and Student Finance, May 2010
[52] 1994 Group (2010) Review of Higher Education Funding and Student Finance, Phase 2: Call for Proposals, Submission from the 1994 Group
[53] The possibility of a cut in the teaching grant has been inferred by HEFCE in its recent consultation on the future teaching funding model: HEFCE (2010) Review of the teaching funding method: consultation on key principles and features (para 57)

student demand and quality of provision with the suggested measures being retention and completion rates.

The University Alliance, representing modern universities with a focus on business engagement, recommends that universities either set the maximum 'graduate contribution' for each course or that this be set by the sector.[54] For contributions set by individual universities, the Group recognises that this would involve 'considerations of cost, market value and competitor pricing'. In terms of student support financing they propose using private finance to provide upfront funding to universities, thus reducing the cost to the Government and freeing up funding for additional student places. (The Group supports progression towards the 50% participation target set by the previous Government.)

The Russell Group calls for differential pricing based on the quality of education provided and the higher private rates of return which are enjoyed by its graduates.

The Russell Group calls for differential pricing based on the cost of provision in different subjects, the quality of education provided and the higher private rates of return which are enjoyed by its graduates. Its assertions regarding the superior financial advantages conferred by a degree from a Russell Group university mark its submission out from those of the other mission groups.

Its report cites various research studies in support of its claim that its degrees confer 'significant and sustained earnings premia'. However, the two main studies which are quoted are based on graduating cohorts from 1985 to 1999 when higher education participation and the graduate employment market were very different from those of today.[55] Of these studies, the one which included controlling for academic achievement, degree subject and family background estimated the earnings premium to be 0% to 6% for men and 2.5% for younger women; however, it noted that, when student characteristics are accounted for, the 'quality claim has been largely over-stated'.[56] The Russell Group also support their case by citing HESA graduate destination data which shows a £3,000 p.a. wage premium for Russell Group graduates in the (pre-recession) 2007/8 survey cohort and a doubling of the premium between 2004/5 and 2007/8.

The Russell Group's submission also refers to the superior non-financial benefits of the 'entirety of the educational experience' its students receive.

However, the Russell Group's submission also refers to the superior non-financial benefits of the 'entirety of the educational experience' its students receive and 'less clear-cut

[54] Aston, L (2010) Proposals for a Graduate Contribution Scheme in England (University Alliance)
[55] These studies are published by the Centre for the Economics of Education, London School of Economics. Chevalier, A and Conlon, G (2003) Does it pay to go to a prestigious university? uses cohorts from 1985, 1990 and 1995. McNally S, Hussain, I and Telhaj, S (2009) University Quality and Graduate Wages in the UK uses these cohorts plus the 1999 cohort with the most recent earnings data based on 2003; 2001 RAE data are used as one of the quality measures. An unpublished study by Chevalier which uses 2003 cohort HESA Destinations of Leavers in Higher Education data is also quoted in the Russell Group submission.
[56] Chevalier, A and Conlon, G, ibid.

benefits in their future careers, such as job satisfaction' as a reason for linking fee (or 'graduate contribution') levels to institution and subject rather than tying them to future earnings.[57] The Group believes that higher fees will drive up quality by making students more demanding of their universities. It recommends that additional information should also be provided to prospective students on: postgraduate progression (which is 'known to confer significant benefits on graduates'); retention rates; research performance; bursaries; and facilities. However, contact hours and staff-student ratios it considers to be dubious proxies for the quality of teaching, requiring contextual explanation to avoid misinterpretation.

League tables are based on the type of quality indicators which are likely to feature in the expanded, more transparent information for students being advocated by the present Government.

Although league tables are only one measure of university performance and quality and also highly controversial due to the varying methodologies adopted, they are based on the type of quality indicators (student satisfaction, research, entry standards, facilities spend, completion rates, good honours degrees and graduate level employment) which are likely to feature in the expanded, more transparent information for students which is already being advocated by the present Government and which can be expected to emerge as one of the key recommendations of the Browne review.[58]

There appears to be a powerful 'image lag' factor which protects universities from falling from favour simply on the basis of changes in numerical rankings.

It remains to be seen whether the greater information transparency that is designed to enable students to make better informed choices will lead them to re-evaluate decisions which are currently based on more intangible but deep-rooted perceptions of reputation (however this is interpreted). There is little evidence to date that changes in league table positions are affecting the popularity of established universities. For example, the universities of Manchester and Birmingham are currently outside the Times top 20 but still attract high numbers of quality applicants. In fact, 40% of Russell Group institutions sit outside the Times Good University Guide 2011 top 20 and 45% are outside the top 20 based on its graduate-level employment metric, with 25% outside the top 30. There appears to be a powerful 'image lag' factor which protects universities from falling from favour simply on the basis of changes in numerical rankings. Word-of-mouth reputation (amongst teachers and employers as well as students) and the perceived benefits of attending a traditional university can mitigate the impact of lower relative performance in the National Student Survey or the type of negative publicity

[57] 'Job satisfaction' is one of the additional aspects of employability information on which the report says Russell Group universities are seeking to provide more information to their prospective students.

[58] HEFCE has already commissioned a report on 'public information needs' that will report this summer. David Willetts has recently asked all universities to produce Graduate Employability Statements to be published on the official Unistats website by August 2010 in preparation for the 2011 admissions cycle and has stated that further such measures will be announced in the next few months. See 'Careers-guidance statements demanded as Willetts unveils choice agenda', *Times Higher Education*, 10 June 2010

regarding low contact hours to which some research-led universities have been subject in recent years.

> **An increase in fees and the introduction of differential pricing will inevitably mean that the 'functional' elements of the university experience will come under greater scrutiny. Differential pricing at the subject and institutional level is real**

Nevertheless, with students already starting to question whether they are getting value for money at institutions where they receive an average of, say, six contact hours a week, an increase in fees and the introduction of differential pricing will inevitably mean that the 'functional' elements of the university experience will come under greater scrutiny with universities being expected to substantiate their claims to offer superior benefits in terms of teaching excellence or employability.

> **The outcomes of the Browne Review could therefore dramatically change the 'rules of the game'.**

Whilst it is premature to second guess the Review outcomes, the consistency of the recommendations from across a large part of the sector regarding the necessity of raising the fees, albeit incrementally, suggests that differential pricing at the subject and institutional level is real possibility. At the time of writing, the Government is starting to give ever stronger hints that higher fees and raising the rates of interest on student loans are the only realistic solution to the funding crisis.[59] The outcomes of the Browne Review could therefore dramatically change the 'rules of the game' for universities if the cap is raised to a level that creates a genuine market in fees.

[59] Shepherd, J 'David Willetts hints that university students will face higher fees', *The Guardian*, 10 June 2010

Pricing is one of the most powerful levers available for increasing financial surplus.

4. Pricing science – An overview

Pricing is one of the most powerful levers available for increasing financial surplus, yet it is also one of the least understood and most neglected. In this section we will introduce some of the ways organisations typically go about setting prices. We will then discuss the key relationship between price and value and some of the main vocabulary of pricing, including 'willingness-to-pay', 'price perception' and 'price elasticity of demand'. Finally, we will discuss some of the more scientific approaches to pricing, including choice-based conjoint methodologies.

4.1 Some typical approaches to pricing

4.1.1 The 'cost plus' method

The simplest approach to pricing is 'cost plus'. This involves applying a percentage mark-up (or 'margin') to cost to arrive at the price. The advantages of this approach are that it is simple, easy to apply and seemingly logical. However, there are several major drawbacks to the cost plus approach.

Customers neither care about nor understand costs.

- **Cost bears no relation to the benefits customers receive from a product** Customers neither care about nor understand costs. When making purchases, customers trade-off the price they pay against the benefits they receive; hence cost is irrelevant to their decision-making process. Cost plus pricing runs the risk of either pricing above what customers are willing or able to pay or foregoing revenue where customers would have been willing to pay more.

- **Correctly allocating costs involves implicit assumptions about volume** Fixed costs are included in the cost plus calculation which therefore involves an implicit assumption about the sales volume across which these costs are distributed. In other words, volume is used to determine price when, in reality, it is price that determines volume.

Using a cost plus pricing approach means that any cost savings achieved are immediately passed on to customers through lower prices.

- **Cost savings are passed on to customers directly** Organisations work hard to reduce their costs. Using a cost plus pricing approach means that any cost savings achieved are immediately passed on to customers through lower prices.

4.1.2 Competition-based pricing

An alternative approach is competition-based pricing whereby prices are benchmarked against what competitors are charging. This approach ensures that prices are in line with the competition; however, this method also has inherent weaknesses.

- **Competitor prices may not be optimal** Competitors' pricing methodologies may be flawed. They may be using cost plus pricing, working to a completely different cost base to your own. Moreover, it is likely that they will be, to an extent, setting their prices in relation to yours, leading to a 'pricing spiral'.

Assuming your competitors have priced correctly, does it necessarily follow that your pricing should mirror theirs?

- **Different products offer different benefits and prices should reflect this** Assuming your competitors have priced correctly, does it necessarily follow that your pricing should mirror theirs? You may know that your product is of much higher quality than theirs, so should you be pricing at the same level?

4.2 The relationship between price and value

The key failing of both cost plus and competition-based pricing is that neither links the price to the benefits a customer derives from buying a product or service. This brings us to the concept of 'value-based' pricing.

It is the trade-off between price and value that lies at the heart of every transaction.

When a customer purchases a product or service, they compare the price they pay with the benefits they receive in return, which we refer to as the 'value'. It is, therefore, the trade-off between price and value that lies at the heart of every transaction. In the context of higher education, different universities offer different benefits in terms of reputation, quality of teaching, quality of facilities and so on which, in a deregulated market, would be reflected in different prices for different degrees.

A useful tool for demonstrating the trade-off between price and value is the 'value map' shown in Figure 1 below. Value is shown along the horizontal axis and price along the vertical axis. Each player in the market is represented by a circle. The dotted line represents the 'value equivalence' line. Those players that are positioned on the value equivalence line are in balanced positions; in other words, their prices are in line with the value they deliver. In our example, player A is relatively overpriced in the market since it charges a premium but does not offer additional benefits. Player B, by contrast, is underpriced. This highlights the key failing of simple price benchmarking exercises which fail to capture the value element.

4.3 Scientifically optimising prices

4.3.1 The van Westendorp Price Sensitivity Meter

The results of the van Westendorp model can provide useful insights into the normal perceived price.

One methodology that is useful for estimating price perception is the van Westendorp price sensitivity meter. It involves asking potential customers what they would consider to be a fair price for a product or service and what they would consider to be an expensive price. Aggregated over a sample of respondents, the results of the van Westendorp model can provide useful insights into the normal perceived price for a product. It is also effective for identifying key psychological pricing thresholds. In well established markets, we typically find that price perceptions are in line with true prices.

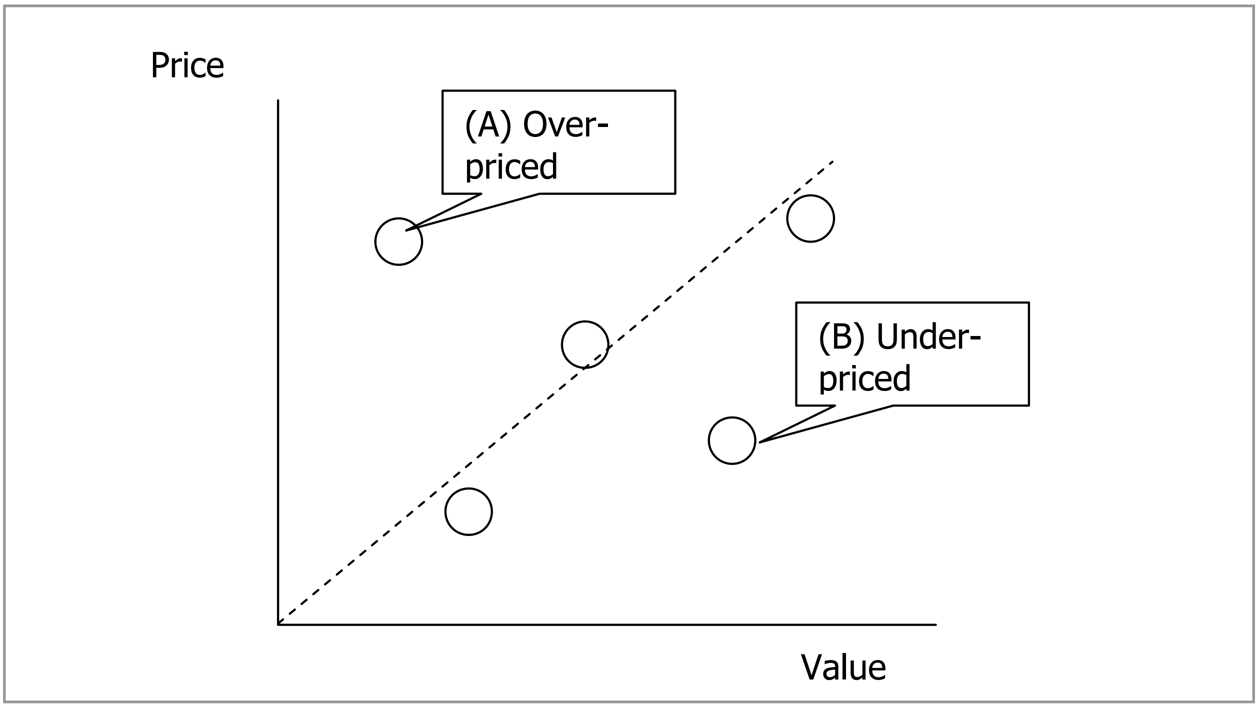


Figure 1: The Value Map

Just because a customer considers a certain price to be 'fair' does not automatically mean they would be willing to pay it.

However, care must be taken when drawing conclusions from a van Westendorp study. Just because a customer considers a certain price to be 'fair' does not automatically mean they would be willing to pay it. Conversely, if a price is perceived to be 'expensive' this does not necessarily imply that a customer will not purchase at that price since they will trade this off against the perceived benefits – for example, the status that they consider to be conferred by purchasing a luxury product. In the context of higher education, a prospective student might consider £10,000 p.a. to be a fair price for a degree from an elite university, given the prestige and career benefits it is perceived to deliver; however, they may regard this price as too high in the context of their own personal circumstances and may not be willing to pay it.

4.3.2 Choice-based methodologies

The most scientific approach to measuring willingness-to-pay is to use choice-based methodologies such as conjoint research.

By tracking customer choices in response to the attribute and price changes presented in each scenario we can observe the importance of each attribute in the decision and the 'utility' (a notional value of 'worth') for each attribute.

Understanding perceptions of what constitutes an 'expensive' or 'fair' price is only half the story. More important is understanding a customer's willingness-to-pay. The most scientific approach to measuring willingness-to-pay is to use choice-based methodologies such as conjoint research.

Conjoint research involves presenting potential customers with a number of hypothetical buying decisions. In each decision, they are required to choose between a pre-defined set of alternative products or services and a 'none of the above' option. As in real life, in a discrete choice model each product or service is defined in terms of a number of attributes of which price is just one. One or more of these attributes (for example, contact hours or student:staff ratio) will change in each of the choice scenarios presented to the potential customer. By tracking customer choices in response to the attribute and price changes presented in each scenario we can observe the importance of each attribute in the decision and the 'utility' (a notional value of 'worth') for each attribute. An example of the choice scenarios that might be shown to research participants using a web-based questionnaire is shown below in Figure 2. This presents three alternative degrees each defined in terms of price, student:staff ratio and contact hours per week.

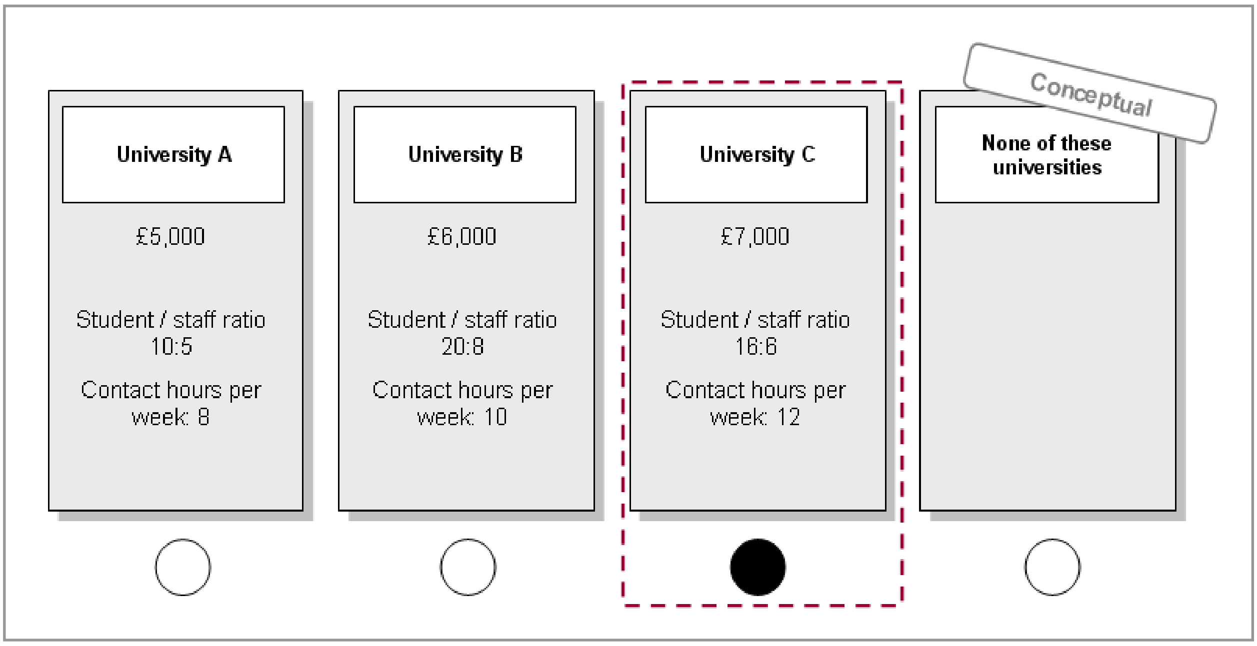


Figure 2: An example conjoint screen

The key advantages of conjoint measurement are as follows:

- **It recreates a purchase decision** The key weakness of the van Westendorp methodology is that, regardless of whether a customer perceives a price to be 'fair', we do not know whether they would actually buy the product or

In conjoint research respondents are faced with actual purchase decisions from which we can simulate the likely demand for a range of price/value scenarios.

service. In conjoint research, respondents are faced with actual purchase decisions (including a 'none of the above' option for added realism) from which we can simulate the likely demand for a range of price/value scenarios.

– **Price is just one of many factors** We refer to van Westendorp as a 'direct' pricing methodology since respondents are asked directly about their perceptions of price. By contrast, conjoint is an indirect pricing methodology, price being one of many attributes used to describe a product or service. Again, this adds to the realism of the decision and avoids overstating the importance of price.

– **Understanding the relative importance of attributes** One output from a conjoint study is an understanding of the relative importance of the various attributes involved in the purchase decision. An important limitation of many pricing studies is that they focus solely on price whereas it is the interaction between price and the various value elements that is key. Moreover, because conjoint is an indirect questioning methodology based around trade-offs it has the capacity to reveal respondents' true preferences (whereas respondents will typically say everything is important when asked directly).

Because conjoint is an indirect questioning methodology based around trade-offs it has the capacity to reveal respondents' true preferences.

– **Translating preferences into prices** Perhaps the most important advantage of conjoint is the ability to translate attributes into price terms since it places a value on the trade-offs between varying attribute levels. In other words, it is possible to set a price for multiple product or service configurations, taking into account changes in competitors' offerings.

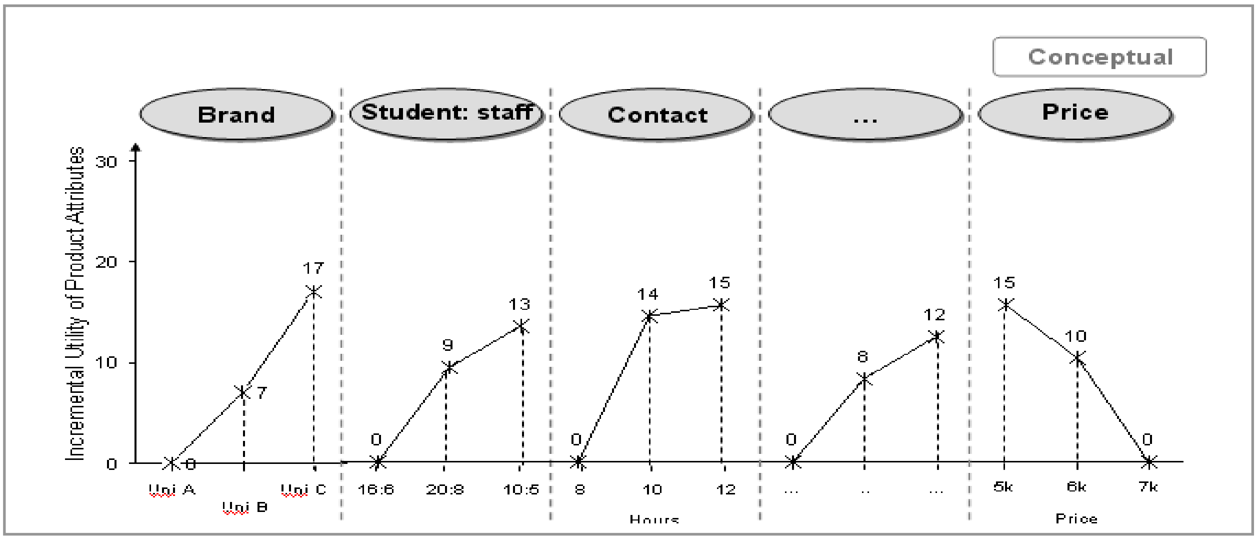


Figure 3: Sample output from a conjoint study

This allows organisations to understand which attributes are most salient for customers, thus enabling them to optimise both prices and value to the customer.

Figure 3 above shows a typical example of the output from a conjoint study with the utilities for each level or each attribute. The total value of the utilities for each university can then be compared with the alternatives. Moreover, comparing the utilities of different universities for a single attribute against that of price enables a financial value to be placed on each attribute, as shown in Figure 4 below. This allows organisations to understand which attributes are most salient for customers in their decision-making process in terms of willingness-to-pay, thus enabling them to optimise both prices and value to the customer.

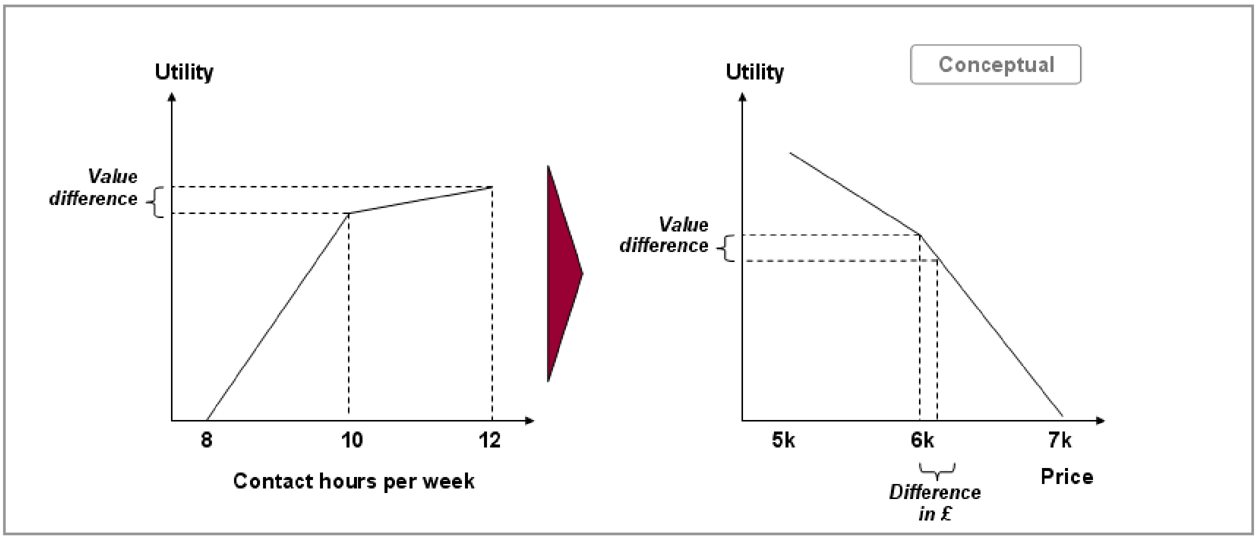


Figure 4: Calculating the financial value of individual attributes

In this example, increasing the number of contact hours from 8 to 10 hours per week yields significant utility whereas the increase from 10 to 12 per week yields only a small increase in utility. When we compare this to the price attribute we find that this amount of utility is 'worth' approximately £50. If the cost of delivering the additional two hours of contact time is more than £50 per student, then the decision would be made to optimise contact hours at 10 per week. A similar approach could be taken to calculate the brand premium between different universities.

4.4 Price sensitivity

For all 'normal' products and services, according to the 'law of demand', demand falls as price increases (and vice versa), as shown in Figure 5 below.

The rate at which demand responds to changes in price is referred to as the 'price elasticity of demand', calculated as follows:

Price elasticity of demand =
% change in quantity demanded / % change in price

Given the inverse relationship between price and volume, the price elasticity of demand will generally be a negative value. An elasticity between 0 and -1 is considered to be relatively inelastic, with an elasticity of 0 referred to as 'perfectly inelastic', meaning that even large price changes will not impact volume. By contrast, an elasticity of more than -1 is considered to be relatively elastic, meaning that demand is very sensitive to changes in price.

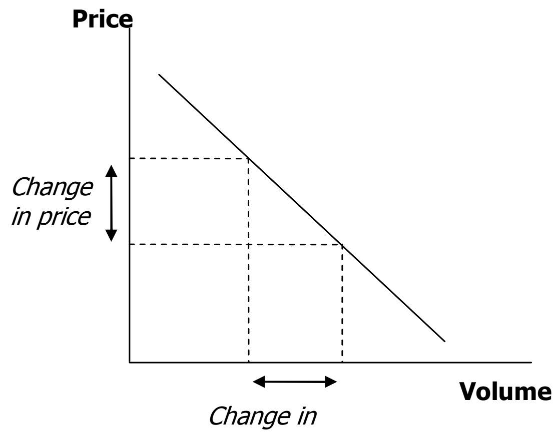


Figure 5: The relationship between price and demand

The measure of elasticity described above is often referred to as the 'own-price elasticity of demand' since it measures changes in demand in response to a change in an organisation's own price. It is also possible to measure the responsiveness of demand to changes in the price of other products or services. This is referred to as the 'cross-price elasticity of demand' and is useful when estimating the impact of competitors' price changes on your own volume. Cross-price elasticity of demand is calculated as follows:

Cross-price elasticity of demand = % change in quantity demanded / % change in price of competitor product (or another product in your portfolio)

Price elasticity is by no means a linear relationship and there are a myriad of factors that can cause variations in the curve. Organisations frequently use historic data on prices and volumes to estimate price elasticity. Great care should be taken with this approach.

Measuring price elasticity can be challenging in practice. First, it will differ widely between products or services and customer segments. Secondly, it will vary with the magnitude of the price change and also the direction of the price change. Price elasticity is by no means a linear relationship and there are a myriad of factors that can cause variations in the curve.

Organisations frequently use historic data on prices and volumes to estimate price elasticity. Great care should be taken with this approach since there are many factors beyond your own price changes which could impact volume and which therefore need to be controlledfor, including competitor price moves and other activities in the broader marketing environment. The most significant weakness inherent in using historic data is that it does not allow volumes to be predicted outside the historic range. By far the most accurate methodology for predicting volume at new price levels is the conjoint method discussed above. One of the primary outputs from a conjoint study is a demand curve, an example of which is shown below in Figure 6.

By far the most accurate methodology for predicting volume at new price levels is the conjoint method.

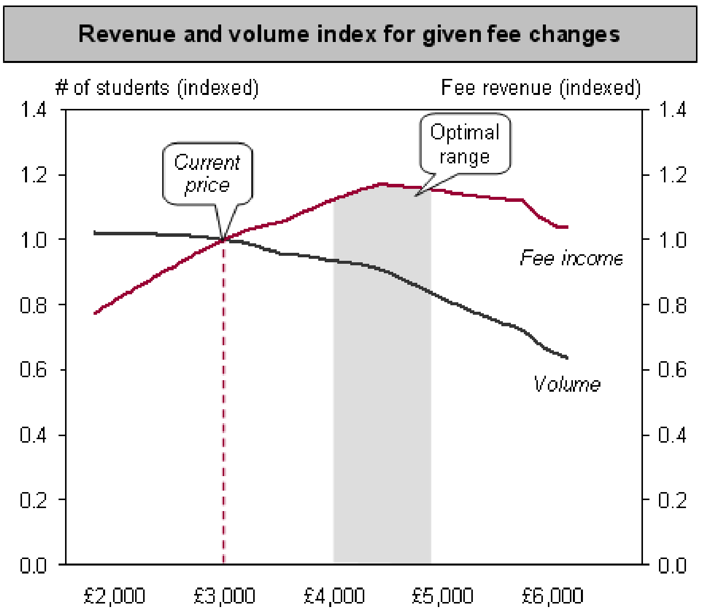


Figure 6: An example demand curve

The black line represents the student number volume (indexed) and the red line the fee revenue (indexed). In this example, we see that the price elasticity of demand is relatively inelastic up to a certain threshold; hence it would be possible to increase fees whilst not incurring a significant volume loss. In our example, at the optimal price (approximately £4,500) the indexed fee revenue is 20% higher than at the current price. (In fact, financial surplus will be higher than this if costs can be reduced on lower volumes.)

Therefore, understanding price elasticity of demand is critical in order to understand the volume response for a given price change. However, the impact of this knowledge goes far beyond purely optimising prices (and, thereby, financial surplus). By definition, understanding the volume response to a particular price change means you are much better placed to forecast volume, which can have beneficial impacts on planning and resourcing.

The impact of this know-ledge goes far beyond purely optimising prices.

Pricing is one of the most powerful financial surplus destroyers.

It is this leveraged effect of a pricing improvement that makes it so powerful in driving financial surplus.

Finally, in order to appreciate the power of pricing, consider the simple financial surplus equation below:

Financial surplus = Revenue – Cost

Financial surplus = [Volume x Price] – [(Volume x Variable Cost) + Fixed Cost]

All things being equal, an increase in price will translate fully into an increase in financial surplus. The same cannot be said for an increase in volume, since the resulting increase in revenue will be offset by the increase in variable costs. The opposite is also true, in that pricing is one of the most powerful financial surplus destroyers. Whilst the impact of a reduction in volume is softened by a corresponding reduction in variable costs, a reduction in price translates one hundred percent into lost financial surplus.

In this simplistic example we have assumed demand is perfectly inelastic. In reality this will not always be the case; hence a price increase will typically result in some loss of volume. However, as long as volume is relatively inelastic, a price increase will result in higher financial surplus. It is this leveraged effect of a pricing improvement that makes it so powerful in driving financial surplus.

Organisations which use scientific research methods to optimise their pricing and forecast volume will be well placed to respond to shifts in market and competitor behaviour and reap the benefits in terms of financial health and sustainability.

5. Rationale for this study

Our research project into current approaches to pricing in universities and how they are preparing for a more 'deregulated future' was motivated by three main factors:

- the limitations of studies to date in terms of the impact of a potentially open UK/EU undergraduate market and what it means for universities' pricing and marketing strategies;
- the strategic importance of postgraduate and international pricing strategies for universities' future financial sustainability and growth; and
- the value of providing to the sector a study of current pricing policy and practice across a cross-section of universities and of understanding what the key issues and challenges are for senior managers and practitioners.

This study fills an important gap in the current knowledge base with regard to universities' approach to pricing.

We believe this study fills an important gap in the current knowledge base with regard to universities' approach to pricing. We have combined our research findings with the theoretical and practical knowledge and expertise of Simon-Kucher & Partners (SKP) in pricing and marketing strategy to provide some recommendations for how universities could approach and structure their pricing activities.

6. Research objectives and methodology

Our research objectives were to capture current thinking, policy and practice in terms of the following key themes:

- current process and practice in terms of the decision-making system and the use of course costing and market research and intelligence to inform pricing decisions;
- how universities are preparing for the outcomes of the Independent Review of Higher Education Funding and Student Finance;
- these institutions' views on the raising of the cap (for UK/EU undergraduate tuition fees) and its implications for the HE sector and their own institutions;
- what universities regard as the key data and market intelligence gaps and barriers to taking a more evidence-based approach to pricing; and
- the implications of a more deregulated fees market for universities' marketing and student recruitment strategies.

Our research objectives were to capture current thinking, policy and practice.

Universities were also asked a series of questions regarding recent market and enrolment trends and their future plans for the student profile/mix at their institutions.

The research took the form of an online survey and qualitative follow-up research with senior managers in 18 universities (of which 11 were pre-1992 institutions), carried out in April 2010.

In the majority of universities, fee-setting involves a number of participants and decision-makers.

Respondents were primarily Directors or Heads of Marketing and Student Recruitment but in other cases the response was provided by Deputy or Pro Vice-Chancellors with responsibility for planning and resources or Directors of Planning or Finance, depending on the decision-making structure of the institution. The predominance of Marketing Directors in the sample is not surprising given that we were asking about the use of market research and intelligence to inform fee-setting since this activity is predominantly located in Marketing departments. In the majority of universities, fee-setting involves a number of participants and decision-makers (with formal responsibility resting with a fees committee or similar). Therefore, it was important that respondents liaised with relevant colleagues to represent the overall institutional position and practice across all student markets.

7. The research findings[60]

7.1 Current approach to pricing and use of market research

We asked respondents how they currently approach pricing at their universities in terms of: the use of programme costing and market research data to inform fee-setting; what degree of emphasis is placed on programme costing compared to market research; and what universities considered the optimal mix. We also asked about the fee-setting process in terms of ownership, decision-making and the degree of centralisation or devolution to academic departments.

7.1.1 Use of programme costing data

Our research showed that the majority of universities are not using costing data consistently to inform their pricing or business planning. However, they are acutely aware of this gap in their management information and many are putting in place the people and processes to address it. Today's HE sector is clearly highly business-driven with greater scrutiny of income, costs and the financial viability of individual subjects and programmes alongside greater accountability for academic departments in meeting recruitment and income targets. The challenge for universities is to ensure they have sufficient (and sufficiently robust) data to enable them to achieve this more sophisticated level of financial management.

The challenge for universities is to ensure they have sufficient (and sufficiently robust) data to enable them to achieve this more sophisticated level of financial management. Half of our respondents said costing data was either unavailable or not incorporated into fee-setting.

Half of our respondents said costing data was either unavailable or not incorporated into fee-setting. Just 22% of respondents used costing data for all or the majority of programmes, whereas in 28% of cases it was used for the few programmes where it was available. Several institutions reported that costing data was used for new programmes but that existing programmes were not routinely costed. Many institutions were developing costing models to understand their cost drivers and course 'profitability'.

Only two institutions considered their costing data to be of good or high quality, completely or mainly fulfilling the requirements for fee-setting. Over half (56%) regarded their data as average quality and satisfactory for purpose. The remainder were evenly split between those which considered it low quality and of limited use and those who deemed it not fit for purpose.

[60] In reporting our research findings we comment on differences between pre- and post-1992 universities where it is valid to do so. Caution also needed to be exercised due to the size of the sample and the slight over-representation of pre-1992 HEIs.

The most common reason for not using costing data to inform fee-setting was the lack of consistent and reliable data across all programmes but this was also due to the complexities of introducing this system in more devolved structures and the scale of the task involved in large institutions with sizeable course portfolios.

'The absence of a strong business need to investigate costs is the primary reason for not using costing data at present. The changing market is forcing the question.'

However, the current financial landscape for HEIs is prompting greater awareness across a wider spectrum of universities of the need for more reliable and sophisticated management information to inform their portfolio analysis. This will enable them to have greater confidence in their business plans and financial projections at departmental as well as institutional level and ensure there is a sound strategic rationale for any cross-subsidisation between cost centres. As one institution put it: 'The absence of a strong business need to investigate costs is the primary reason for not using costing data at present. The changing market is forcing the question.'

7.1.2 Use of market research for fee-setting

We found that over three-quarters of all respondents (78%) were using market research to inform their fee-setting. This was evenly split between those for whom this was a recent innovation and those who had been conducting market research for some time. With one exception, the remaining respondents planned to use market research in the future.

Over three-quarters of all respondents were using market research to inform their fee-setting… but the majority of universities are aware that they need better quality data.

However, concerns remain over the quality of their market research data. Over half (56%) rated their market research data of average quality and satisfactory for purpose but around a quarter (23%) considered it low quality or not fit for purpose. Therefore, the picture was one of a sector which is increasingly embracing the need for an evidence-led and research-informed approach to pricing strategy but the majority of universities are aware that they need better quality data.

In terms of the type of market research that is currently undertaken, this was predominantly secondary research to benchmark competitors' fees which was then used to make a judgement on where the university should position itself. The degree of consistency and detail with which this research was conducted varied; as one respondent commented: 'it's not systematic and needs to be better embedded in our business operations'. Another institution described their current competitor benchmarking as a 'blunt instrument' which failed to capture the subtleties of competitors' offerings and market position. Several respondents mentioned that the definition of competitors (particularly at the postgraduate and subject level) was based on 'gut feel' rather than hard data and that this limited the reliability of their benchmarking data.

Institutions which had better resourced market intelligence conducted more detailed and regular research at the departmental and programme level and were able to be more proactive in working with academic departments on setting fees and pricing new programmes.

The variation in investment in and commitment to market research tended to be driven by which department led on and owned the fee-setting process.

The resourcing and level of sophistication of universities' market research operations was therefore wide-ranging and there was no clear difference between the traditional and modern universities in this respect; rather, the variation in investment in and commitment to market research tended to be driven by which department led on and owned the fee-setting process. Universities where this was led by Finance or Planning rather than regarded as part of the teaching and learning portfolio (see 7.1.3) were found to take market research more seriously in terms of resource commitment and the level to which they had developed their work in this area.

7.1.3 Current fee-setting approaches

Where respondents were able to quantify the current proportion of costing to market research data used in fee-setting, it was evident that universities rely far more heavily on market research data than on programme costing data, although this partly driven by the limitations of their current financial information.

In a number of institutions the current approach was a case of deciding the percentage increase that would need to be applied to meet income targets.

When asked what they regarded as the optimal split, around 40% of respondents thought that fee-setting should be based on market research data and another 40% thought a 50/50 split of cost and research data was optimal.

Universities told us they were keen to gain more reliable data on actual costs and the true financial contribution of individual departments and programmes to inform their business planning. In a number of institutions, although competitor research was reviewed, the current approach was driven by their financial plans and was simply a case of deciding the percentage increase that would need to be applied to meet income targets.

Many universities are moving to a more finance-driven approach to what was previously regarded as part of the 'education' portfolio.

In the majority of institutions, ownership of fee-setting was ultimately with the senior management team or executive group with a fees committee making the proposals to this senior group, although a number described this as a 'rubber-stamping' process at this stage. In post-1992 institutions the process tended to be led by the Finance Director who chaired the fees committee whereas in pre-1992s there was a fairly even split between this finance-led model and the responsibility resting with the committee responsible for teaching and learning. It is evident that many universities are moving to a more finance-driven approach to what was previously regarded as part of the 'education' portfolio.

Although marketing and recruitment staff were represented on the fee-setting group where this had a larger number of members, in cases where the responsibility was more finance-driven or rested with a smaller, more senior group, there was no marketing representation. Several respondents expressed their frustration in this respect. This was encapsulated by the words of one respondent who commented: 'Marketing intelligence is under-represented, the Group's work is not informed by marketing principles.'

'Marketing intelligence is under-represented.'

Whilst all universities described a process which was centralised rather than devolved, there was a wide degree of variation in the extent to which proposals from academic departments for non-standard/premium fees for individual programmes were scrutinised in terms of the business case and supporting market research. In most cases fee proposals had to be approved at Faculty or School level prior to central submission. In institutions with devolved budgets, there was greater autonomy with departments bearing the responsibility and the business risk.

There was a wide degree of variation in the extent to which proposals from academic departments were scrutinised in terms of the business case and supporting market research.

7.2 Market research gaps and challenges

Two key themes emerged in terms of current gaps in universities' market research.

First, many universities identified a need for primary research on willingness-to-pay and price sensitivity and recognised the need for support in this area. Secondly, respondents wanted much more detailed and nuanced information that would enable them to know who their competitors are and benchmark their own portfolios and performance at department and programme level. This concerned not only hard data on actual student numbers, fees, scholarships and programme content, but also knowledge of competitors' value propositions and relative brand strength. Universities wanted a deeper understanding of why competitors price as they do and what drives student decision-making at both the application and acceptance stages of the Student Journey.

Many universities identified a need for primary research on willingness-to-pay and price sensitivity and recognised the need for support in this area.

Universities wanted a deeper understanding of why competitors price as they do and what drives student decision-making.

Several respondents were sceptical about the reliability of market research data for forecasting student behaviour, particularly in the case of undergraduates at the pre-application stage or from non-traditional backgrounds where they may be less well-informed about the true costs of attending university or be unable to respond to hypothetical scenarios where fees could be considerably higher than current levels. The fact that the decision is an emotional as well as a functional one cropped up in a number of our interviews and respondents wondered how that could be taken into account in designing the research. The number of influencers involved, particularly parents, but also teachers and, in the case of postgraduate programmes, employers, was identified as a further issue.

7.3 How universities are preparing for the Independent Review

The Independent Review of Higher Education Funding and Student Finance was launched on 9th November 2009 by Lord Mandelson, Secretary of State for Business, Universities and Skills. It is chaired by Lord Browne and comprises an independent body of members drawn from business, academia and the public sector.

Around two-thirds were developing or putting in place new processes.

The Review is in the process of examining a wide range of evidence and proposals from a variety of stakeholders (see section 3.6 above) and will report in autumn 2010. It is likely to have major and wide-reaching implications for universities so we were interested to learn what preparations universities were making for the outcomes of the Review.

Over a quarter were bringing in new people or groups to plan for these new scenarios.

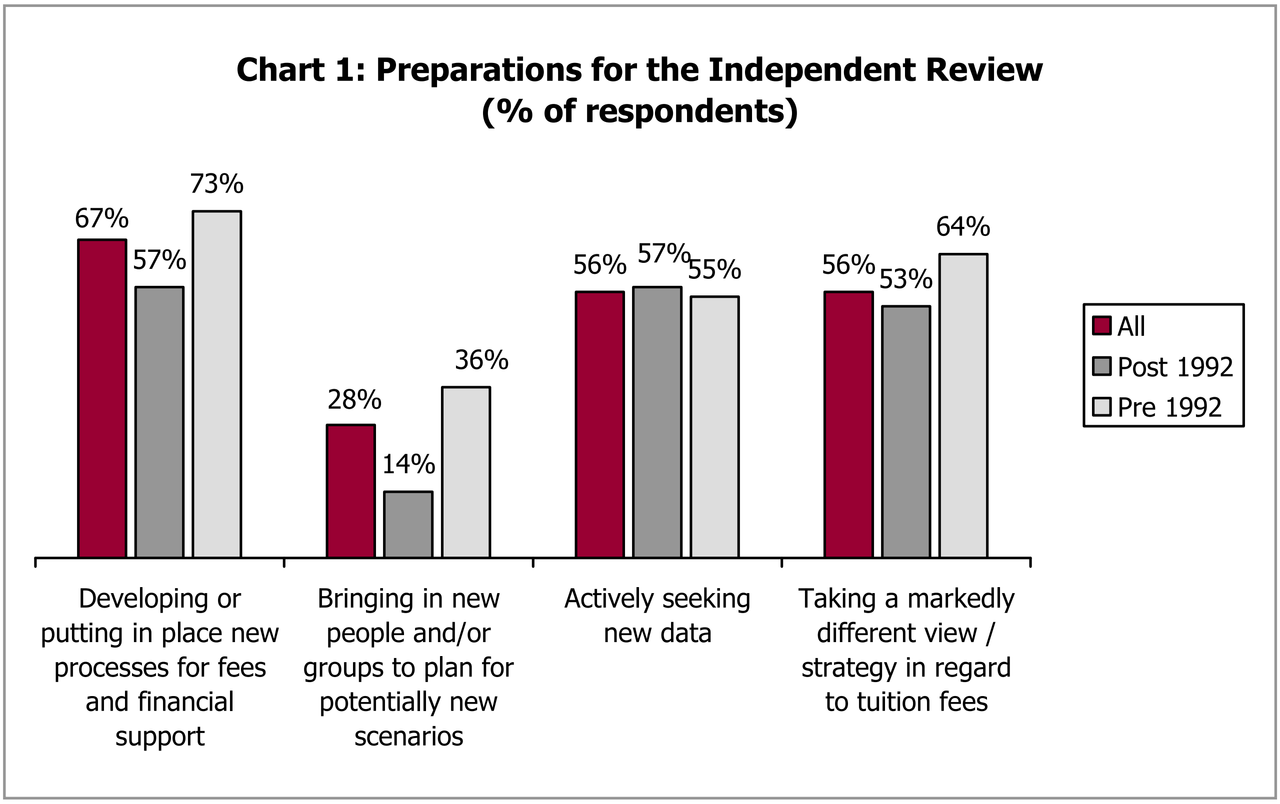
All but three of the universities that we questioned said they were doing some new things in preparation for the outcome of the Browne Review (see Chart 1). Around two-thirds were developing or putting in place new processes for the setting of fees and financial support and over half were taking a new approach to tuition fees and/or actively seeking new data, although in many cases these new approaches were at a fairly early stage of development. Over a quarter were bringing in new people or groups to plan for these new scenarios.

The pre-1992 universities were making more active preparations.

Interestingly, it was the pre-1992 universities which were making more active preparations for the Review outcome in terms of new processes, people and approaches. This may be because, as shown in the next section, these universities believe they would have greater scope to set their prices up to the maximum of the fee cap recommended by the review and will therefore need to take more difficult decisions regarding the optimal level to reflect their market position and avoid under- or overpricing.

Several respondents were reluctant to make significant investments of time or resources when the future policy direction was still uncertain.

Several respondents commented that they planned to do more when it was clearer what policy decisions would emerge from the Review and were reluctant to make significant investments of time or resources when the future policy direction was still uncertain. The majority considered that their institutions were doing as much as was realistically possible in the light of these uncertainties (although there was a feeling amongst a substantial minority that ideally they would be doing more) and that it was necessary to adopt a 'wait and see' position.



7.4 Raising the tuition fee cap on UK/EU undergraduate fees

Our respondents were asked four questions about the level of the fee cap:

- how they expected the Browne Review to advise on the fee cap policy;
- at what level they believed a truly open market would emerge;
- what they considered to be the optimal level for their institutions; and
- whether there was a valid case for the cap to be removed entirely.

7.4.1 Review expectations

The most detailed analysis of the potential impact of raising the cap on fees is the UUK report from March 2009 which aimed to 'construct an economic model for a limited range of future scenarios for variable fees, funding and student support that might be adopted in England following the Government's independent review of fees.'[61] The selected scenarios were fees capped at £5,000 and £7,000. The study also included a survey of 12 vice-chancellors which found that a market would start to emerge at £7,500 upwards but that a true market would only be created if fees went above £10,000.

[61] CRA International/Nigel Brown Associates (2009), op. cit.

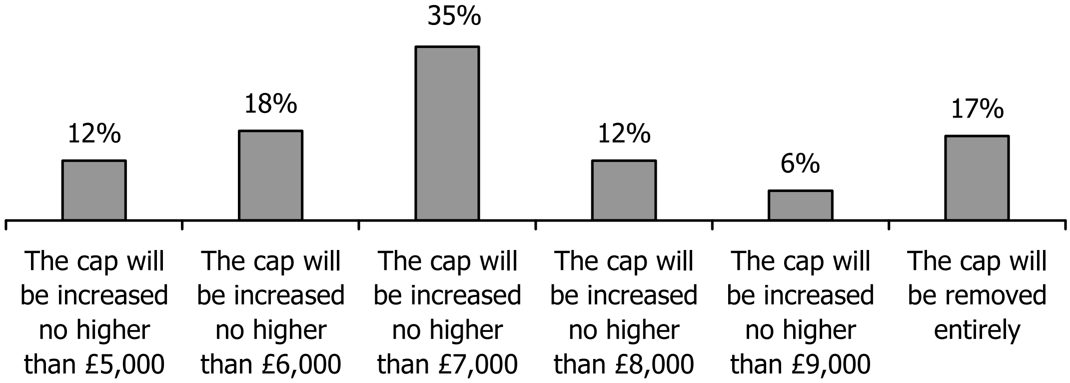
When asked what level of increase in the fee cap they expected the Browne Review to recommend, 70% of our respondents thought this would be higher than £6,000, with £7,000 being the most frequently selected level.

When asked what level of increase in the fee cap they expected the Browne Review to recommend, 70% of our respondents thought this would be higher than £6,000, with £7,000 being the most frequently selected level, chosen by one-third of respondents (see Chart 2). The remainder of respondents selected price points up to £9,000 and a minority thought the cap would be removed entirely. There was no clear difference in the responses of pre- and post-1992 institutions.

7.4.2 At what level would an open market emerge?

We asked respondents to suggest the level to which the cap would have to rise to create a truly open market in fees, with different institutions charging different fees for different subjects. However, it should be recognised that the true open market cannot operate as long as there remains a cap on the number of UK/EU undergraduates which universities are allowed to recruit without incurring financial penalties from HEFCE (although, even in a fully deregulated environment, numbers would be constrained by universities' own teaching capacity). Moreover, the headline fee is not the only issue since student financial aid and loan arrangements need to be taken into account.

Chart 2: How are you expecting the Independent Review to advise on fees? (% of respondents)



Around a quarter of respondents thought there would not be a truly open market at any fee level.

As Chart 3 shows, opinions were spread across a range of fee levels, with somewhat higher proportions selecting the £7,000 to £8,000 range. This is roughly in line with the UUK report which found that a market would begin to emerge at £7,500. Around a quarter of respondents thought there would not be a truly open market at any fee level. Here again, there was no clearly discernible pattern in the responses of pre- and post-1992 institutions, although there was a slight preference amongst post-1992s for a market emerging at the higher £9,000-10,000 range.

When asked about optimal levels for their own institutions there was a clear preference for fees below the £7,000 level.

Only a quarter of respondents would be comfortable with a cap above £7,000.

7.4.3 What do universities consider an optimal level for their own institutions?

Where differences do emerge, however, is in how far universities feel that they could go themselves were the fee cap to be raised. Whilst there was a wide spread of views concerning the point at which an open market would emerge, in general, when asked about optimal levels for their own institutions there was a clear preference for fees below the £7,000 level (see Chart 4). Around half of universities surveyed considered the optimal level to be up to £5,000 or £6,000 for their institution, although, as we have seen, 70% thought the Independent Review would recommend a cap above £6,000 and one-third thought the cap would be raised higher than £7,000. Only a quarter of respondents would be comfortable with a cap above £7,000. No respondent considered a fee higher than £10,000 as optimal.

Chart 3: At what level would an open market emerge? (% of respondents)

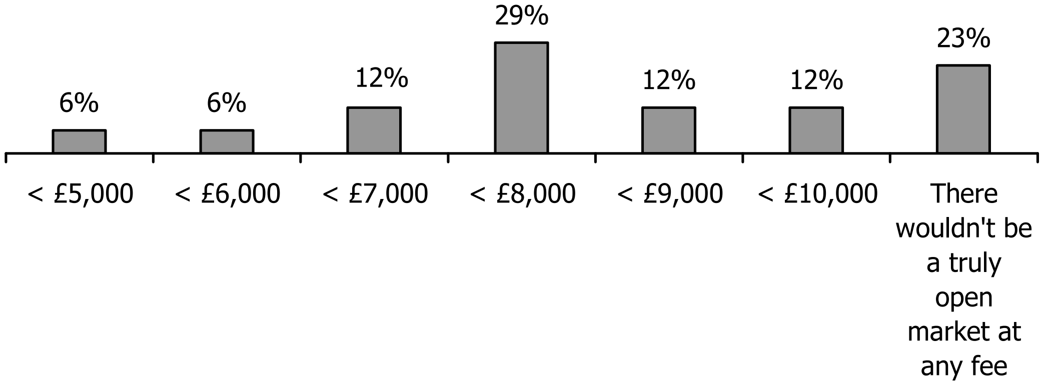


Chart 4: What would be the optimal fee level for your institution? (% of respondents)

A fee of between £6,000 and £7,000 was the most frequently selected by pre-1992 universities, although an equal proportion were comfortable with fees above this level. By contrast, all but one of our post-1992 respondents considered a level up to £5,000 or £6,000 as optimal.

The majority of pre-1992 universities appear to place their optimal fee level close to or at the level which was considered the most likely outcome of the Independent Review.

The majority of pre-1992 universities, therefore, appear to place their optimal fee level close to or at the level which was considered the most likely outcome of the Independent Review. Conversely, the post-1992 institutions tend to price themselves below this level. In the qualitative interviews, a number of this group expressed concern that, if the cap were to be raised above £5,000, there could be a repeat of the 'flight to quality' that was apparent when fees first increased to £3,000 in 2006. This could be a particular problem for these institutions if there were to be a reduction in the number of full-time funded places or a fall in demand from UK undergraduates in response to rising fees or due to a combination of an improved job market offering attractive career opportunities to school-leavers and the decline in the number of 18 year olds after 2010.[62]

When asked whether an open market would be fundamentally a 'good thing' for their institutions, there was a fairly even split between those who agreed it would and those who did not. Whilst it might be expected that the pre-1992 institutions would be more positive about an open market for fees than modern universities, this did not prove to be the case.

Although slightly more modern university respondents were concerned about the implications of an open market, some pre-1992 institutions were worried about the implications for their widening participation strategy.

Although slightly more modern university respondents were concerned about the implications of an open market, some pre-1992 institutions were worried about the implications for their widening participation strategy since, even if generous financial aid were to be available, they thought students from less affluent backgrounds would be deterred by a large increase in the headline price. Other concerns from this group of respondents related to whether the cap would rise above the level they considered optimal for their institution and whether differential fees would prompt greater scrutiny by UK undergraduates of their true market position and value of their offering relative to competitors (i.e. 'living off their reputation' would no longer be sufficient).

Other concerns related to whether differential fees would prompt greater scrutiny by UK undergraduates of their true market position.

7.4.4 Should the cap be removed entirely?

Finally, we asked our sample whether, taking account of the financial stability of the HE sector and from the perspective of their own institutions, whether they thought there was a valid case for removing the UK/EU undergraduate fee cap entirely.

[62] See Bekhradnia, B and Bailey, N (2009) Demand for Higher Education to 2029 (HEPI) which shows that the number of 18-20 year olds will decline by over 13% between 2010 and 2020, the lowest level since fees were first introduced in 1998. There will be a concomitant decline in the 21-24 age group whereas the 25-29 group will rise by 12% until 2018. The report shows the decline in the 18-20 group will affect the northern regions of England disproportionately.

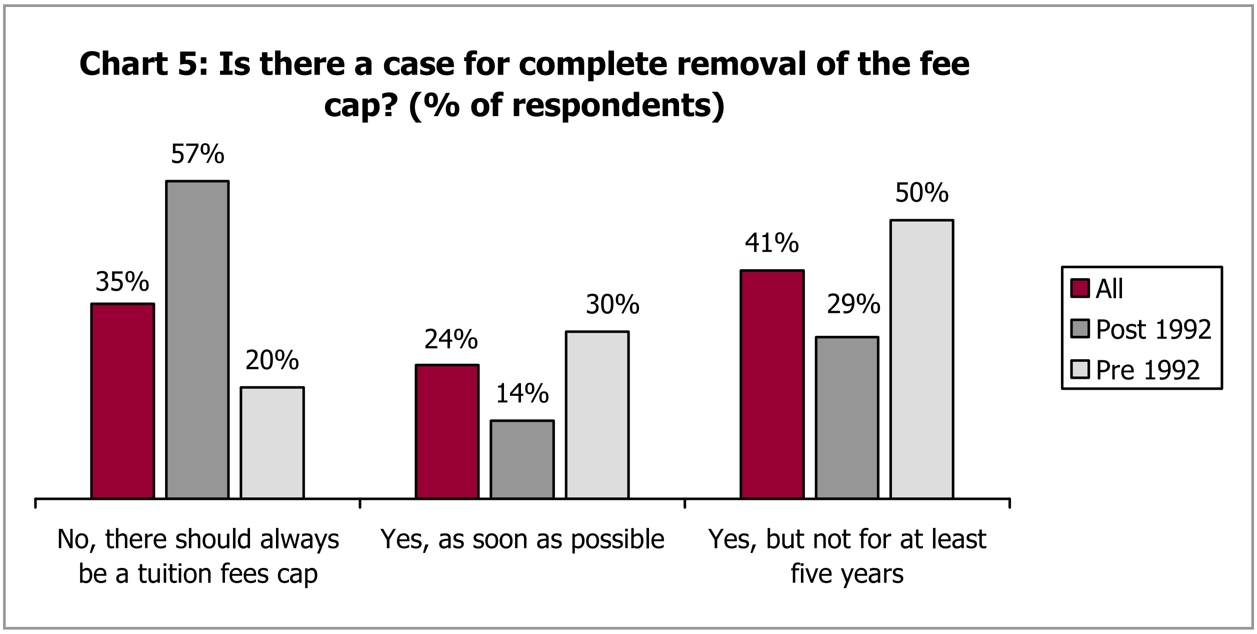
In March 2009, the BBC published a survey of 53 university vice-chancellors, in which two-thirds wanted to raise tuition fees to levels ranging from £4,000 to £20,000.[63] Approximately one-tenth believed that the cap on tuition fees should be removed entirely.

Whereas around one-third of all respondents said that 'there should always be a cap', well over half of post-1992 universities were in favour of this.

It was here that the clearest difference between pre- and post-1992 respondents emerged, as Chart 5 shows. Whereas around one-third of all respondents said that 'there should always be a cap', well over half of post-1992 universities were in favour of this. Around a quarter of our sample believed that the cap should be removed as soon as possible but this rose to almost one-third amongst pre-1992s. The continuation of a cap for at least five years was advocated by four-tenths of our sample with half of pre-1992s favouring this policy.

There was a feeling that the sector needed more time to prepare for this 'brave new world'.

The thinking behind this emerged from the qualitative interviews where respondents expressed concern regarding the state of readiness of the sector for an open market. Even if the cap remained but were to be raised to a level above £5,000, there was a feeling that the sector needed more time to prepare for this 'brave new world', not only in relation to developing their market intelligence and understanding of their competitive position but also because of the huge complexity of the changes that would need to be communicated to the student audience.



[63] Coughlan, S., 'Universities push for higher fees', BBC Online, 17 March 2010

A number of universities referred to significant recent investments in enhancing their physical facilities and support services for students.

There is now a clear awareness of a need for universities to raise their game in a more competitive higher fees environment, particularly if the cap were to increase to a level where it will be impossible for there to be a repeat of 2006.

7.5 Impact on universities' marketing and recruitment strategies

We asked our respondents to give their views on how a more deregulated fees environment would impact on marketing and recruitment strategies in their own institution and the sector generally. We were also interested in how they thought this might affect the student profile in terms of the balance of UK/EU vs. international students and undergraduate vs. postgraduate. We also asked about whether they foresaw any knock-on effect of higher undergraduate fees on postgraduate fee levels and whether they anticipated greater competition from private providers.

7.5.1 Marketing and recruitment strategies

It was evident that, compared with the run-up to 2006 when universities were making new investments in marketing and concerned with developing a differentiated market position, in 2010 they appear more confident in the progress made in this area. A number of universities referred to significant recent investments in enhancing their physical facilities and support services for students.

Whilst there was some concern amongst post-1992 institutions about how they would communicate their value propositions and protect their brand if they were not able to price at the top end of the fees threshold, in general there does not appear to be any major 'panic' in terms of whether universities are well-prepared for a new fees environment in terms of the quality of the student experience, their market attractiveness and differentiation. However, this may, in part, be due to the uncertainty surrounding the outcome of the Independent Review and the raising of the fee cap; a number of our respondents said they felt they could not make more concrete preparations in the absence of clear policy guidance. The level of funding cuts already announced for the sector with the prospect of more to come may also have influenced universities' thinking since this is likely to preclude significant investment in new marketing initiatives in the next few years.

The messages that came through most consistently were around two main themes. First, the importance of communicating quality, reputation, return-on-investment and value for money and, crucially, being able to substantiate these claims with 'hard facts' to a more demanding and 'savvy' student market. These requirements are essentially no different to the imperatives that underpinned universities' marketing strategies when preparing for the variable fees context of 2006. However, there is now a clear awareness of a need for universities to raise their game in a more competitive higher fees environment, particularly if the cap were to increase

The need for greater transparency and clarity in communicating with prospective stakeholders was highlighted.

to a level where it will be impossible for there to be a repeat of 2006 where virtually all universities charged the maximum fee.

Secondly, the need for greater transparency and clarity in communicating with prospective students and stakeholders in a more complex fees environment was highlighted by the majority of our respondents. This related to the challenges of ensuring that students understood both the national financial aid system and the offerings of individual institutions in terms of 'product features and benefits', the rationale for differential fees and 'what students are getting for their money'. One Marketing Director in a post-1992 institution described this as marketing becoming 'a champion for students', leading the debate with finance and academic departments to ensure that policies and student services are customer-centric and that increased fees lead to an appropriate level of investment in the student experience.

One Marketing Director described this as marketing becoming 'a champion for students', to ensure that increased fees lead to an appropriate level of investment in the student experience.

The need for universities to provide much greater clarity in terms of the price and value will be particularly vital if fees and graduate starting salaries are included in league tables and university guides in future (as is already the case for rankings of MBA programmes).[64] Price comparison websites (a kind of 'comparethemarket.ac.uk') could well be introduced as an additional decision tool for prospective students, creating a single source of information and the kind of price transparency that the web has introduced into other consumer markets.

Price comparison websites (a kind of *comparethemarket.ac.uk)* could well be introduced.

The need for better information, advice and guidance (IAG) has already been highlighted by the first report from the Independent Review,[65] echoing the recommendations of the National Council for Educational Excellence (NCEE) in October 2008.[66] Submissions to the Independent Review's second call for evidence have also been consistent in highlighting the need for better and clear information for students.[67]

7.5.2 Student mix

The majority of respondents thought that this would not affect their plans for international and postgraduate numbers.

With regard to the impact of higher undergraduate fees on the student mix, the majority of respondents thought that this would not affect their plans for international and postgraduate

[64] The website bestCourse4me.com already enables students to compare starting salaries between different courses.
[65] See http://www.independent.gov.uk/HEreview
[66] See http://www.dcsf.gov.uk/ncee. The research conducted by HEPI (see Bekhradnia, B (2009) The academic experience of students in English universities) also addresses the need for greater clarity of information regarding teaching hours, methods and what is expected of students. The risk of market in higher education being introduced without students having access to robust information about quality that enables them to make accurate comparisons of different universities and courses has been referred to as the 'information fallacy' (see Brown, R (2009) Where the US goes today… (HEPI seminar paper))
[67] In the USA, from autumn 2011, .the Federal Government will require all institutions to provide web-based net-tuition calculators to prospective students. These are a more sophisticated version of the traditional financial aid calculator which shows what students and their families are likely to pay in net tuition, subtracting the average scholarship or need-based grant the student is likely to receive.

Five private institutions have taught degree awarding powers.

numbers. This was because these were not driven purely by revenue generation but by the need for a balanced portfolio, internationalisation strategies and the importance of postgraduate students for teaching and research strategies.

7.5.3 Postgraduate fees impact

In terms of the impact on postgraduate fees, opinion was fairly evenly divided between those who thought these would have to increase in line with undergraduate fees and those who thought they would need to be adjusted in the light of higher undergraduate fees.

7.5.4 Competition from the private sector

The debate on this issue in the UK sector has intensified in recent years due to the market entry of an increasing number of for-profit organisations and overseas institutions, including those which teach international students in the UK in partnership with universities. Estimates of the number of overseas institutions with campuses in the UK vary from 60 to 100. These are primarily North American universities but there are some from continental Europe. Some of these are well-established and have strong brands, such as Richmond American International University and the European Business School, part of Regent's College. Five private institutions have taught degree awarding powers: BPP Ltd, the College of Law, the University of Buckingham, the ifs School of Finance and Ashridge Business School. BPP is now owned by the US-based Apollo Group which also owns the University of Phoenix, a considerable player in the online learning market. Several other private providers have applications pending and others are likely to apply.[68]

Respondents were fairly evenly divided in their opinions as to whether private competition would be a threat. Virtually none regarded it as an issue for their own institutions since they believed private providers targeted a different market.

Respondents were fairly evenly divided in their opinions as to whether private competition would be a threat to the sector generally. Of those who considered it to be a growing threat, virtually none regarded it as an issue for their own institutions since they believed private providers targeted a different market and their own target market would still want the traditional university brand. The threat was identified as greater for lower ranked universities and in the professional postgraduate market.

This view reflects that of the recent UUK report on private provision[69] which suggests that, although private colleges may pose a threat to some types of university in terms of international recruitment, they are largely drawing their students from a different market segment. However, there is a perception that public-private partnerships and the market

[68] See Fielden, J (2010) The growth of private and for-profit higher education providers in the UK (UUK)
[69] Ibid.

Public-private partnerships and the market entry of more private providers are likely to be a growing feature of the HE landscape.

entry of more private providers are likely to be a growing feature of the HE landscape. They are aligned with the 'diversification of funding' agenda set out in the previous Government's *Higher Ambitions* strategy document and which David Willetts, has stated fits largely with Conservative thinking.[70] Mr Willetts has also previously indicated his party's support for removing barriers to private sector entrants to the HE sector. Some policymakers interviewed for the UUK report were supportive of a thriving private sector since they believed that this would force publicly-funded institutions to raise their game and achieve national policy objectives such as skills development at lower cost.

Awareness [of private sector competition] was expressed by a number of our respondents with references to the private sector 'cherry picking the low cost disciplines'.

Awareness of these issues was expressed by a number of our respondents with references to the private sector 'cherry picking the low cost disciplines' and having an advantageous cost base that is out of the reach of 'full service' universities which have to support research and knowledge transfer as well as teaching, serve multiple stakeholders and balance market needs against their public service ethos (for example, by continuing to teach high cost and strategically important subjects).

The national debate regarding private provider competition has, to date, focused on the risk that they will steal international student market share from universities without strong international brands by being able to offer a more personalised, teaching-focused 'customer experience'. However, the potential threat to the traditional UK school leaver market has also been highlighted.[71] Many employers are now claiming that certain types of degree do not prepare students sufficiently for the job market and there is mixed evidence regarding the salary premium offered by a university degree. Those private providers which either have their own degree awarding powers or are accredited by an established university and which offer a cost-effective alternative of a high quality vocational education with professional accreditation and direct relevance to the job market might pose a more serious threat to a certain segment of the university market in a higher fee environment. Universities would do well to keep a watching brief on developments in this sector in the future.

Private providers with their own degree awarding powers or accredited by an established university might pose a more serious threat to a certain segment of the university market in a higher fee environment.

[70] See Morgan, J 'Willetts; I come not to impose but to distil', *Times Higher Education,* 20 May 2010

[71] See for example: 'Why private universities represent good value for money', *The Guardian,* 1 December 2009. A Lego University - is this another brick in the wall? *The Guardian*, 2 February 2010

8. Analysis and recommendations

In this section we set out our analysis of how well-prepared universities are for an undergraduate market characterised by higher fees and greater deregulation. We then look at how pricing science could help the sector to be better prepared; what universities could do now; and our recommendations for the future.

The past five years have seen considerable investment by universities in their marketing functions and growing awareness of the need for marketing to be about more than just promotion.

8.1 State of readiness of the sector for a more deregulated market

When judged by the standards of the commercial sector, it would be easy to conclude that universities are not well-prepared for a more open tuition fees market since the vast majority are not basing their pricing on empirical, primary research on willingness-to-pay and price sensitivity. However, when considered within the economic, regulatory, financial and competitive environment within which they have operated since the introduction of variable fees in 2006, it can hardly be said that universities have been resistant to change.

Universities are far from complacent: they are aware of 'what they don't know'.

Although they are non-profit institutions, universities now operate more like businesses and are expected to generate surpluses to finance capital investment and expansion. Although all universities cannot be said to be truly marketing-led (as our findings on fees decision-making show), the differential status and understanding of marketing (as a strategic management function rather than 'marketing services' or 'communications') is a perennial topic of debate and concern in the private and other sectors too. The past five years have seen considerable investment by universities in their marketing functions and growing awareness of the need for marketing to be about more than just promotion. Over three-quarters of our sample had made some form of investment in market research to inform fee-setting, although concerns about quality remain.

Our research showed the two key gaps to be primary research on price perceptions, willingness-to-pay and price sensitivity and much more in-depth knowledge of competitors' value propositions.

The overriding message to come out of our research is that universities are far from complacent: they are aware of 'what they don't know' and realistic in their appraisal of their processes and practice. They are hungry for better market intelligence to enable them to take an evidence-based approach to portfolio management and pricing and plan with confidence. Our research showed the two key gaps to be primary research on price perceptions, willingness-to-pay and price sensitivity and much more in-depth knowledge of competitors' value propositions and relative brand strength.

In most cases this awareness appeared fairly well embedded across the senior management team with responsibility for pricing. However, in some cases the marketing and

In some cases the marketing and recruitment specialists were frustrated that they were not better integrated into pricing decision-making.

recruitment specialists were frustrated that they were not better integrated into pricing decision-making. In others, a market-led approach had only recently started to inform institutions' thinking about pricing. This was evident from their decision-making processes for fee-setting where finance and planning were starting to lead on what was formerly regarded as part of the 'education' portfolio of responsibilities.

All our respondents described a process that was primarily centralised for non-standard (i.e. programme-specific) fees. This suggests that institutions are becoming more 'corporate' in their approach to pricing. However, there was considerable variation in degree of central scrutiny and the extent to which academic departments were required to put forward evidence-based proposals for central approval.

Universities are not burying their heads in the sand when it comes to preparing for the new fees environment.

When the political uncertainty and the pessimistic public funding context for HE are taken into account, it would be fair to say that universities are not burying their heads in the sand when it comes to preparing for the new fees environment, although the vast majority were at an early stage of development.

Very few were taking no new actions with two-thirds developing new processes for fee-setting and over half seeking new data and/or taking a new approach to fees. The fact that they were not doing more was due to an understandable reluctance in the face of the prospect of deep funding cuts to invest scarce resources in preparing for an uncertain post-Browne future.

In terms of marketing and recruitment strategies, here too there was a high level of awareness of the impact on audience requirements, the communication challenges ahead and how universities would need to respond.

In terms of marketing and recruitment strategies, here too there was a high level of awareness of the impact on audience requirements, the communication challenges ahead and how universities would need to respond. However, there was no evidence that universities are taking tangible steps to commission new research or review their positioning and communication strategies in preparation for a more competitive environment and demanding student audience. This does not imply that such steps are not being taken, simply that no specific examples of new plans and developments were offered in response to our question regarding the impact on marketing and recruitment. This may be because there is a sense that 'we have been here before' and that, having invested in marketing in preparation for 2006, the changes required will be incremental rather than radical – a sharpening of existing communication strategies rather than a major re-branding exercise. Here, too, uncertainty surrounding the Independent Review outcomes and the current funding climate are likely to be constraining new marketing initiatives.

A sector characterised by a thirst for more and better market intelligence that will enable universities to move their pricing policy and practice onto a far more evidence-based footing.

Our analysis therefore depicts a sector characterised by a thirst for more and better market intelligence that will enable universities to move their pricing policy and practice onto a far more evidence-based footing. It was also apparent that, whilst universities have a good, general understanding of the gaps in their current knowledge, they are far less well-informed about the specifics of the research techniques and models that are available to support pricing decisions. There was also some scepticism regarding the applicability of these models to the university sector. We will address both these issues in our next section.

This kind of primary research has been used for some time by US universities to inform decision-making on tuition fees and financial aid packages. English universities will no longer be able to rely on competitor benchmarking and subjective or 'aspirational' perceptions of their brand value.

8.2 The application of pricing science to the HE sector

Pricing science, specifically primary research based on conjoint analysis as described in section 4, has been used by SKP in the HE sector to create a price modelling tool which enables the client to model different scenarios based on:

- the impact of different price points on application and enrolment volumes;
- the effect of changes to course attributes on customer behaviour; and
- the impact of changes in competitors' offerings.

This kind of primary research has been used for some time by US universities to inform decision-making on tuition fees and financial aid packages. With the incremental lifting of the fee cap now a real possibility, English universities will no longer be able to rely on competitor benchmarking and subjective or 'aspirational' perceptions of their brand value in making pricing decisions.

If pricing is based on a simplistic model of 'high price equals high quality', there is a risk of overpricing – setting the 'sticker price' too high and thus risking losing applicants to 'better value' competitors.

Poorly conceived pricing strategies pose a real risk to universities' financial health and sustainability. Over-cautious underpricing would have a negative impact on income streams, brand perceptions and reputation. It could also mean that universities risk over-investing in scholarships and financial aid or failing to target it at the right student groups. Conversely, if pricing is based on a simplistic model of 'high price equals high quality' which fails to capture the value of the university's offer in the eyes of customers, there is a risk of overpricing – setting the 'sticker price' too high and thus risking losing applicants to 'better value' competitors and being forced to offer scholarships or other forms of discounting that devalue the brand.

Empirical research with prospective students is the only way to achieve robust knowledge of what price the market will bear and understand the complex relationships between price, the functional and emotional aspects of value and brand perceptions and the impact on customer behaviour. This involves not simply understanding price perceptions (i.e. whether a particular price is considered 'fair') but the impact of different pricing thresholds on actual behaviour (i.e. whether a purchase will actually happen). Price elasticity is a complex

The relationship between price, demand and propensity to purchase is complex and unstable.

Research undertaken by pricing strategy specialists in the US market has shown that a rise in the headline fee can be offset by financial aid strategies but may still deter students at the application stage.

Whilst there are obviously some key differences in the purchase decision process for a university education, the pricing models themselves can be transferred to the HE sector.

An increase in the fee cap will further intensify the decision risk.

area, particularly in respect of the 'high involvement' purchase of an HE course; the relationship between price, demand and propensity to purchase is complex and unstable rather than linear. Robust research techniques and models created by pricing specialists are required to understand these subtle relationships.

Whilst many pre-1992 institutions may well be able to rely on their established reputations and league table performance to command a higher price and charge up to the maximum level of the cap, they will nevertheless need to consider the impact on application and enrolment for lower income groups. As we saw in our research with universities, there is some concern on this topic amongst selective universities which struggle to attract students from disadvantaged backgrounds despite considerable investment in outreach work. Research undertaken by pricing strategy specialists in the US market has shown that a rise in the headline fee can be offset by financial aid strategies but may still deter students at the application stage.[72]

Although the application of pricing science is in its infancy in the UK HE market, firms like SKP have a wealth of experience in applying these techniques in sectors such as the luxury automotive and pharmaceutical industries where primary research has been employed for decades. Whilst there are obviously some key differences in the purchase decision process for a university education, the pricing models themselves can be transferred to the HE sector. There are also a number of ways in which pricing in the luxury car and pharmaceutical industries resembles the HE decision-making model.

They involve one-time, high risk purchases making the costs of failure extremely high. These are therefore highly risk-averse industries which need to base their pricing decisions on robust evidence of the relationship between price and demand. Similarly, in HE with its lengthy decision-making cycle and annual recruitment process, the institution has only one chance to 'get it right'. Likewise, for the student customer, the financial and non-financial costs of making the wrong HE decision have a major impact on their professional and personal future. An increase in the fee cap will further intensify the decision risk, creating the need (that has been identified in

[72] Strauss, David W (2006) Set the wrong tuition and you'll pay the price. *Association of Governing Boards of Universities and Colleges, Trusteeship*, vol. 14, no. 1, Jan-Feb 2006. The Student Poll published by the College Board and the Art & Science Group in May 2010 based on research with a national sample of 1067 high school seniors found that 59% of students only looked at the sticker price of an institution before taking account of financial aid and only 28% had considered the net tuition price of a school after taking into account what they might receive in financial aid. See: College Board and the Art & Science Group LLC (2010) Students and parents making judgments about college costs without complete information. *StudentPoll,* vol 8, issue 1

Customers are making a 'lifestyle' decision which is emotional and experiential as well as functional. The pricing research models employed can accommodate these 'softer' decision-making factors.

submissions to the Independent Review) for far more transparent and objective 'product information' to enable students to make informed decisions. There are similarities too between the decision-making process in the high end, luxury goods market and HE in that customers are making a 'lifestyle' decision which is emotional and experiential as well as functional. The pricing research models employed can accommodate these 'softer' decision-making factors.

The value of primary pricing research lies not only in the data it provides to enable organisations to set prices but also in its ability to predict with a high degree of reliability the impact of price on sales volumes for different product models. This is of particular relevance for universities for two main reasons.

By understanding the attributes which are most salient for customers and which create genuine competitive advantage, universities would be able to target investment of (increasingly scarce) resources in areas which are benefits and differentiators rather than features and 'hygiene' factors.

First, by modelling the impact of different combinations of attributes on the propensity to apply and enrol, the research will enable universities to make evidence-based decisions on the areas of investment in the academic 'product' and the student experience that would yield the greatest return. For example, would students value and be prepared to pay a premium for more small group teaching, better online learning support, enhanced physical or social facilities or more support for graduate employment? By understanding the attributes which are most salient for customers and which create genuine competitive advantage, universities would be able to target investment of (increasingly scarce) resources in areas which are benefits and differentiators rather than features and 'hygiene' factors, thus maximising the impact on student choice and advocacy (and, thereby, reputation). By encompassing the 'softer' experiential decision-making factors in the analysis, universities will also gain insight into whether investment should be in the functional components of the student experience or whether their competitiveness would be enhanced by addressing brand perceptions through changes to their marketing communications strategy.

For universities and departments where managing capacity is an issue, being able to predict with greater accuracy the impact of price variations on recruitment volumes provides a powerful tool for managing demand.

Secondly, for universities and departments where managing capacity is an issue, being able to predict with greater accuracy the impact of price variations on recruitment volumes provides a powerful tool for managing demand and avoiding the negative impact of over-recruitment on resource allocation and student satisfaction. Whilst raising entry standards is already a tool at their disposal for managing demand, for highly selective institutions and courses this may not be sufficient to ensure a well-targeted recruitment strategy. Moreover, with publicly funded UK/EU undergraduate places remaining restricted and in the absence of any reduction in demand, it is likely that, in a future deregulated fees environment, a wide spectrum of universities will need to employ a more sophisticated combination of academic and financial price in order to model and manage demand.

However, the successful application of these techniques is dependent on the client having (or being willing to invest in) a reliable evidence base on its customers' decision-making process, key choice factors and competitors, and an in-depth insight into competitors' value propositions. For many universities this is likely to require undertaking additional market research and competitor analysis as a pre-condition to carrying out primary pricing research.

The successful application of these techniques is dependent on a reliable evidence base on customers' decision-making process, key choice factors and competitors.

As we saw in our research with universities, they are aware that desk research based on competitors' published programme information is a 'blunt instrument' for understanding the subtleties of the student decision-making process. Not only is it necessary to research in more detail how competitors are positioning themselves in terms of key messages and differentiators; it is also important to understand how prospective students perceive these competitors: in marketing 'perception is reality'. For example, there may be an 'image lag' between competitors' current performance and the market's perception of their reputation and brand strength. This can be a particular issue for newer universities which lack the inherent advantages of their longer-established or larger peers but which have made considerable progress in terms of league table rankings or graduate employability, for example. Such subjective but nonetheless powerful drivers of choice can only be captured through primary research into student decision-making; research with 'decliners' can be particularly informative here.

Not only is it necessary to research in more detail how competitors are positioning themselves; it is also important to understand how prospective students perceive these competitors: in marketing 'perception is reality'.

Some of our survey respondents raised concerns regarding the applicability of the pricing research models used in the private sector in the HE context. These related primarily to the feasibility of conducting research with young people at the pre-application stage, particularly those from non-traditional backgrounds, due to lack of information or erroneous perceptions of the financial issues involved in attending university. This is a legitimate concern and echoes the findings of Sir Martin Harris's recent report into widening access at selective universities[73] which found that students from non-selective maintained schools were unaware of the bursaries available at selective universities and regarded Russell Group universities as 'more expensive' and 'harder to reach'.

However, whilst there may be some limitations in applying the research amongst these student groups and conducting research at an early stage in the decision-making process, this would not be the case for more traditional applicants. Whilst there will be particular challenges in the case of research amongst the first cohort of prospective students likely to be affected by the rise in fees, these can be overcome by ensuring that research participants are given sufficient contextual

[73] Harris, M op. cit.

information on the new fee and funding system, including how other universities are pricing (or are likely to price) so that the decision scenarios with which they are presented are as close as possible to those they will face in reality. It will also be important to take into account the role of other decision influencers, such as parents in the case of the undergraduate market; where their role is sufficiently salient to make them effectively secondary customers, it may be necessary to include them in the research to achieve a more sophisticated understanding of the impact of price on decision-making.

It will also be important to take into account the role of other decision influencers, such as parents.

Conducting such research in international markets undoubtedly poses specific challenges due to the wide range of country markets involved and their specific macro-environmental characteristics, consumer demand patterns and decision-making factors. For example, is a country primarily an undergraduate or postgraduate taught market? Are students self- or government funded? What is the role of parents in the decision process? Is the decision a financial, employability or reputation-driven one? Is the market shifting from overseas study to a transnational education (TNE) model?

Whilst designing a research model for the international market is inevitably more complex and requires pre-existing information on choice factors and competitor sets, it is possible to overcome these issues by focusing the research on key country markets for which the university has access to a database of pre-applicants and has a good understanding of the decision attributes in these markets. A well-designed conjoint model based on a focused set of course attributes and competitors will yield robust results with a sample of around 50 students for each key market segment (defined in terms of both course/subject and country).[74] This should be a realistic proposition for most universities which are active international recruiters in these markets. Research in emerging country markets and for universities which are at an earlier stage in developing their international markets will inevitably be more problematic both in terms of sampling and because there will be no or low awareness of the university's product and brand. Here it will be necessary to rely on more generic research on the macro-environmental factors, consumer demand and decision-making factors and pricing decisions will need to be evolutionary, risk-informed and based on market testing rather than primary research.

Pricing research can be successfully adapted for the university decision-making process.

Therefore, whilst the application of pricing research techniques may be more complex in some markets, our experience in the UK HE market and the established use of such techniques in the US market, shows that pricing research can be successfully adapted for the university decision-making process. As we have seen, there are pre-requisites in terms of understanding

[74] According to the Central Limit Theorem, a sample of 30-40 observations from a normally distributed population will yield statistically valid results.

The current competitor benchmarking approach cannot measure scientifically any 'brand premium' which a competitor might possess.

The risks of setting prices in the absence of primary research evidence will be considerable.

The return-on-investment in terms of graduate employment and salary premia, student satisfaction, curriculum design and student support will all come under greater scrutiny. The relationship between subject and institutional reputation is likely to become more important.

the key choice factors and competitor 'offers' but our research with universities shows that the most progressive HEIs have developed, or are in the process of developing, the more sophisticated knowledge base that will enable them to undertake primary research into willingness-to-pay and price sensitivity.

Deregulation of the undergraduate tuition fees market is becoming a more realistic scenario for which universities will need to plan carefully. It will require a far more evidence-based approach to fee-setting and student finance and a far deeper and research-informed understanding of the relationship between price and brand perceptions. Universities will need to go beyond the current competitor benchmarking approach which assumes that peers are pricing correctly too. Such an approach cannot measure scientifically any 'brand premium' which a competitor might possess. Whilst it is straightforward to benchmark price, it is much more complex to benchmark value, meaning that the higher value of certain universities or certain courses is not being realised. If universities are to take steps into a world of competitive, more deregulated market pricing, it is essential that future scenarios can be tested in order to determine price thresholds; relying on historic pricing data ignores the presence of any external 'noise' such as changes to fees charged by competitors but these can be factored into the empirically based research models that we have been discussing here.

As is now well recognised, higher fees will create both more demanding and better informed students and our research has shown that universities are already well aware of the challenges this poses for their marketing and communication strategies. With the exception of universities which are firmly in the global 'premier league', the risks of setting prices in the absence of primary research evidence will be considerable. Even universities which have strong brands in the undergraduate market may face increasing international competition in postgraduate and premium fee markets, or may not possess equal brand strength across their whole subject portfolio. As previously discussed, they will also need to be aware of the impact of higher fees on the participation of students from less advantaged backgrounds.

In a higher fees environment, the return-on-investment in terms of graduate employment and salary premia, student satisfaction, curriculum design and student support will all come under greater scrutiny from prospective students and their influencers as the decision-making process becomes even higher risk. The relationship between subject and institutional reputation is likely to become more important. In this new environment, institutional brand value that may have previously enabled universities to command a 'premium price' may be offset by a lower return-on-investment in terms of employability, to the extent that some vocational, specialist and differentiated programmes at universities which are traditionally regarded as less prestigious may be able to charge a higher fee than more generic and less competitive programmes at universities with more established reputations and/or higher league table positions.

There are few universities which can afford to be complacent regarding the sustainability of their student recruitment income streams across all markets.

This shift in decision-making and consumer behaviour is likely to be incremental rather than immediate and will not impact equally on all segments of the market. Universities which are lower in the rankings or which lack a distinctive brand and value proposition are likely to be the most affected, at least in the short to medium-term.

However, there are few universities which can afford to be complacent regarding the sustainability of their student recruitment income streams across all markets. Those which invest in a more progressive and research-informed approach to pricing will be much better placed in terms of planning and performance in a new, more deregulated future for the HE sector.

8.3 What universities could be doing now

Developing an evidence base that can be flexed to take account of different fee and funding scenarios will enable them to be on the 'front foot' in adapting to a less benign and more competitive financial environment.

Despite the uncertainties surrounding the detailed policies which will emerge after the Browne Review completes its work in the autumn, there are a number of actions that universities can take now to ensure they are well-prepared for the new environment.

In the private sector, organisations which have to operate in increasingly volatile and competitive environments utilise scenario planning and modelling techniques to plan and manage under conditions of uncertainty (whilst being aware of the inevitable limitations of these models). As universities operate more and more like businesses, they are embedding strategic analysis and planning, risk management and more sophisticated balanced scorecard type performance measurement models into their management practices. Developing an evidence base that can be flexed to take account of different fee and funding scenarios will enable them to be on the 'front foot' in adapting to a less benign and more competitive financial environment. This is particularly important given the long planning cycle required in the undergraduate market (typically at least two years prior to the point of entry) and the fact that Government spending cuts may require a new fees regime to be introduced sooner rather than later.

We have identified four key areas for universities to prepare for the outcomes of the Browne Review.

Building on the findings of our research, combined with our knowledge of pricing research and marketing strategy, we have identified four key areas for review and/or development by universities to prepare for the outcomes of the Browne Review.

A well-designed customer insight programme combining quantitative and qualitative research will maximise the effectiveness of any investment in primary pricing research.

This type of research and analysis will prove equally valuable in the postgraduate and international markets which represent substantial and increasingly important income-generators.

Pricing is an intrinsic element of branding which needs to be considered within a holistic view of the university's 'offer'.

Therefore, senior marketing staff need play an active role in the fee-setting process.

Recommendation 1: Develop customer and competitor insight

Universities should undertake regular market research to understand the key choice factors, brand perceptions, influencers and motivators of their key customer segments. A well-designed customer insight programme combining quantitative and qualitative research will maximise the effectiveness of any investment in primary pricing research. It will also help ensure that future positioning and marketing communication strategies are based on a realistic, evidence-based evaluation of the university's competitive strengths and marketing assets rather than 'aspirational' objectives or out-dated perceptions that are not substantiated by current performance or customer experience.

Competitor research is required which goes beyond simplistic benchmarking to achieve a sound knowledge of who the true competitors are and a more in-depth evaluation of these competitors' value propositions, combining the functional elements of their offer with analysis of their key messages and differentiators and how these are received by customers. This type of research and analysis will prove equally valuable in the postgraduate and international markets which represent substantial and increasingly important income-generators and on which universities may need to rely even more in future.

Recommendation 2: Continue to review fee-setting processes

We have seen that a number of universities are putting in place new processes to embed fee-setting into their finance and planning systems, moving away from considering it as part of the 'teaching and learning' portfolio. We recommend that this approach is adopted more widely. Reducing the size and complexity of decision-making groups alongside increasing the use of costing and market research data will enable universities to be more responsive to market conditions. Pricing is an intrinsic element of branding which needs to be considered within a holistic view of the university's 'offer' alongside its 'product' (course design and delivery and the overall student experience) and how this is communicated to the market. Therefore, senior marketing staff need play an active role in the fee-setting process.

Recommendation 3: Model different fee scenarios through primary research

As it becomes more a case of 'when' than 'if' with regard to the lifting of the fee cap, investment in primary research will give universities a valuable evidence base for modelling the impact of different fee levels and course attributes on application and enrolment volumes. It will also enable them to understand how their 'offer' compares to those of competitors in terms of pricing and 'product' features and the relationships between the two. Undertaking this research at an earlier stage will allow

Undertaking this research at an earlier stage will allow universities more time not just for financial planning but for the planning and implementation of the changes required to both the academic and student experience and in how this is communicated to support their desired price positioning.

universities more time not just for financial planning but for the planning and implementation of the changes required to both the academic and student experience and in how this is communicated to different target audiences in order to support their desired price positioning. Since this planning will be informed by empirical evidence regarding the attributes that are most salient for students with regard to differentiation from competitors, universities will be able to develop their plans with greater confidence in terms of return-on-investment.

Recommendation 4: Research and test brand messages to support the chosen value proposition

As we discussed in 7.5, in a higher fees environment, universities are fully aware that marketing claims will need to be credible and sustainable, based on substance not 'spin' and rhetoric. A value proposition which is based on empirical evidence of the features and benefits valued by customers will help ensure this but the brand messages to communicate the value proposition effectively and distinctively will also require research and testing.

8.4 Recommendations for the future

We recommend that an empirical approach to pricing become more firmly embedded in universities' market research and planning processes.

In the medium to long-term, we recommend that an empirical approach to pricing become more firmly embedded in universities' market research and planning processes.

We would also recommend that universities create dedicated pricing analyst posts of the type that are common in private sector organisations which operate in competitive and high risk industries. Pricing strategy is a specialised field and, whilst the work of these in-house specialists will need to be complemented by commissioned primary research, it will no longer be sufficient for pricing to be handled by generic market research or planning staff.

Pricing strategy is a specialised field and, it will no longer be sufficient for pricing to be handled by generic market research or planning staff.

Whilst investing in primary research may appear hard to justify in the light of current funding constraints and in a buoyant undergraduate recruitment market, the financial and reputational costs of ill-judged pricing decisions make entering this new environment without robust empirical evidence highly risky.

An investment of, say, 1% of fee income in prior research, is likely to be recouped many times over through higher fees, avoiding the negative financial and reputational impact of 'discounting' (through untargeted financial aid) and/or higher recruitment volumes.

Investment in primary pricing research will enable universities to maximise revenue through competitive pricing strategies; understand how their 'offer' compares to competitors in terms of pricing and 'product' features; and optimise value to the

An investment of, say, 1% of fee income in prior research, is likely to be recouped many times over.

customer balanced against cost to the university. By understanding which programme features, student services, financial aid packages and brand messages deliver the greatest impact on student choice and enrolment decisions, institutions will be able to maximise their return-on-investment. Making investment decisions which are driven by value to the customer and which impact directly on income generation could be critical to survival in the difficult financial times that lie ahead for English universities.

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